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**DFIs AND DEVELOPMENT IMPACT:
AN EVALUATION OF SWEDFUND**

Stephen Spratt, Peter O'Flynn and Justin Flynn

DFIs and Development Impact: an evaluation of Swedfund

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Foreword by the EBA

Sustainable economic growth through sustainable businesses is vital for achieving the ambitious goals under the 2030 agenda and for job creation in poor countries. A precondition for this is more and better (sustainable) investments in the world's poor countries.

Sweden's Development Finance Institution Swedfund was established in 1979. Initially, the task was to transfer Swedish knowledge of entrepreneurship and enterprise to developing countries. Today, Swedfund's mandate is to invest in poor countries, through equity acquisitions in individual companies, through funds or through lending. The overarching objective is the same as the objective for Sweden's international aid – to “create preconditions for better living conditions for people living in poverty and under oppression”.

Swedfund has, since its inception, invested in more than 260 companies in low and middle-income countries and the total contracted amount in the portfolio at the end of 2016 amounted to around SEK 4 billion. During the last years, there has been a surge among donors in business-oriented assistance or development finance. The Swedish Government has completed several capital injections to Swedfund (400 MSEK in 2016 and 2017, respectively), and additional injections for 2018-2020 (600 MSEK yearly) were announced in the budget bill for 2018. Looking at it from an international perspective, however, Swedfund is still one of the smallest Development Finance Institutions in Europe.

In 2008, EBA's predecessor, Sadev, published an evaluation of Swedfund which concluded that Swedfund's additionality was unclear, that Swedfund achieved its goals, though there were also criticism for not following up with all companies it invests in. The present study, by Stephen Spratt, Peter O'Flynn and Justin Flynn from the Institute of Development Studies (IDS) is an attempt to assess Swedfund's development impact a decade later. The evaluation concludes: “...it is not possible to say definitively whether Swedfund has reduced poverty through its activities (... [but we] ...) find indications that Swedfund is having a positive impact on poverty in some respects, and may also have positively

affected the ESG [environmental, social and governance] performance of the firms in which it invests”. The report also examines how Swedfund could increase its poverty impact and how this could be robustly measured and used to improve impact over time. One recommendation is that Swedfund needs to strengthen its work on long-term follow-up of core indicators, not least in terms of tax and employment.

It is my hope that this report will find its intended audience among a broad public with an interest in development finance, development cooperation and sustainable poverty reduction.

The authors’ work has been conducted in dialogue with a reference group chaired by Kim Forss, member of the EBA. However, the authors are solely responsible for the content of the report.

Gothenburg, April 2018



Helena Lindholm

Sammanfattning

Utvecklingsfinansiärer (Development Finance Institutions, DFIs) har fått en allt viktigare roll för utveckling. Den andel av det offentliga utvecklingsbiståndet (ODA) som fördelas till DFIs ökar också i de flesta givarländer. Det här tydliggör att en utveckling av den privata sektorn är prioriterad internationellt, och att finansiering av företag i låginkomstländer uppfattas som viktigt för att nå de hållbara utvecklingsmålen. Om den nuvarande trenden fortsätter kommer också investeringarna via utvecklingsfinansiärer efterhand att överstiga det traditionella offentliga utvecklingsbiståndet. Mycket beror alltså på om dessa investeringar faktiskt lyckas.

Mot bakgrund av detta ligger följande fråga i fokus i den här utvärderingen: Har de investeringar som gjorts av Svenska statens utvecklingsfinansiär Swedfund bidragit till fattigdomsreducering och, om så är fallet, i vilken utsträckning och på vilket sätt?

Vi kan i utvärderingen se tecken på att Swedfunds aktiviteter bidrar positivt till att minska fattigdomen, men frågan kan utifrån tillgängliga data inte besvaras slutgiltigt.

Man kan närma sig frågan på två olika sätt, och båda används i studien. Vi börjar med att titta på investeringarna utifrån länder och sektorer, och bedömer om det är sannolikt att de minskar fattigdomen. Denna analys *ex-ante* (på förhand) visar att Swedfund huvudsakligen investerar i länder där finansieringen utgör ett komplement till vad som redan finns tillgängligt. Utgångspunkten är att kompletterande investeringar i kapitalsvaga länder med hög fattigdomsnivå rimligen borde få en positiv effekt, och därigenom sannolikt även minska fattigdomen. Faktum är att Swedfund arbetar med att rikta om hela portföljen mot investeringar i låginkomstländer och att de här effekterna därmed kan förväntas öka med tiden.

Tittar vi på fördelning utifrån sektorer framträder en mer blandad bild. Även om Swedfund fokuserar på sektorer som potentiellt kan generera en hög sysselsättning (t.ex. tillverkning) har

investeringar inom jordbruket fasats ut, trots bevis för att det inom den här sektorn finns störst potential för att minska fattigdomen. Samtidigt, och i likhet med flera andra utvecklingsfinansiärer, har Swedfund ökat fördelningen till den finansiella sektorn. Utöver tecken på ett mer generellt positivt samband mellan utveckling av den finansiella sektorn och tillväxt finns det få belägg för att den här formen av investeringar skulle vara särskilt positiv vad gäller fattigdomsbekämpning.

I vår bedömning ex-ante drar vi därför slutsatsen att Swedfunds investeringar sannolikt minskar fattigdomen, men att den positiva effekten kan förstärkas med en tydligare inriktning mot fattigdomsbekämpande sektorer och om portföljen snabbare inriktas på investeringar i låginkomstländer.

Den andra metoden för att bedöma effekt går ut på att undersöka förändringar i viktiga utvecklingsindikatorer under och efter investeringarna (ex-post). Swedfund tillhandahöll data inom fyra områden för efterhandsutvärderingen: finansiellt resultat, sysselsättning, beskattning och för ESG-resultat (miljömässig och social styrning). Innan resultaten undersöks krävs några allmänna förtydliganden angående dessa data.

Swedfund är för det första en förhållandevis liten verksamhet. Det innebär att både nuvarande och tidigare portföljer är små. Det utesluter i sig de flesta kvantitativa utvärderingstekniker och medför att synliga mönster i data kan vara starkt påverkade av ett fåtal investeringar, ibland endast en.

Tillhandahållna data har, för det andra, endast varit tillgängliga för ett begränsat antal år. I vissa fall tre år, och ibland endast två år. Detta betyder inte att Swedfund inte har samlat in data tidigare, utan att äldre data inte är jämförbara och därför inte kan användas för utvärdering. Utvecklingsfinansiärer som Swedfund tar även regelbundet emot anvisningar från regeringen om nya fokusområden, vilket kräver att nya indikatorer måste identifieras och följas. Utvärderings- och uppföljningstrenderna bland utvecklingsfinansiärer utvecklas ständigt, vilket även det leder till att nya indikatorer börjar användas. Bristen på en enhetlig uppsättning indikatorer gör det svårt att göra jämförelser över tid.

För det tredje saknades ofta data från den tidpunkt då investeringen gjordes (baseline). Det här gör att vi inte kunnat se vilka förändringar som har inträffat under investeringens livscykel, vi har endast kunnat följa utvecklingen under de två eller tre år som data fanns tillgängliga. Följden är att positiva (eller negativa) effekter kan ha inträffat tidigare under investeringslivscykeln, men att det ofta är omöjligt att veta.

För det fjärde förlitade sig de finansiella data som tillhandahölls för 2013–2015 på uppgifter från uppgiftslämnare, och svarsfrekvensen var inte jämnt fördelad över indikatoruppsättningen. För 2014 var svarsfrekvensen 72 procent för frågorna om sysselsättning, medan den endast var 31 procent för frågorna om betald skatt. Analysen försvåras också ytterligare av att dataunderlaget redan från början bestod av få observationer.

Swedfunds angreppssätt vid arbetet med ESG-frågorna är relativt nytt, detta begränsar de slutsatser som kan dras om den slutliga effekten på det området.

Med dessa förbehåll gick det dock att dra följande slutsatser om resultaten ex-post.

Finansiellt sett ökade intäkterna för Swedfunds investeringsföretag från 2013–2015, både totalt och i genomsnitt. Ökningen berodde till stor del på utvecklingen i låneportföljen och i mindre utsträckning på kapitalinvesteringar i enskilda företag. Som kontrast var resultaten för kapitalinvesteringar via fonder sämre under samma period, förlusterna var koncentrerade till ett fåtal större investeringar. Det är viktigt att notera att vi inte kan avgöra om portföljens förbättrade finansiella resultat berodde på Swedfunds åtgärder. Så kan vara fallet, men orsaken kan även vara en ökad andel lån i portföljen, och att lån tenderar att ge ett bättre resultat än aktier.

Det här tydliggör de risker som en relativt liten utvecklingsfinansiär, som Swedfund, ställs inför. Storleken gör att det finns gränser för hur mycket risk som kan undvikas genom diversifiering och riskspridning. Eftersom Swedfund nu allt mer fokuserar på låginkomstländer där riskerna sannolikt är högre, kan detta med tiden bli ett större problem. En lösning vore att minska risken i portföljen – exempelvis genom att öka graden av lån i

portföljen eller investera i mindre riskabla företag – men det kan samtidigt medföra att utvecklingsinsatsernas effekter minskar.

Nedan diskuteras några andra förslag på hur denna viktiga fråga kan hanteras.

Vad gäller sysselsättningen syns små övergripande effekter i portföljen, varken positiva eller negativa. Detta döljer dock stora variationer. Swedfunds aktieportfölj uppvisar en nettoförlust vad gäller arbetstillfällen. Förlusten är opropotionerligt koncentrerad till äldre investeringar, investeringar i Asien och inom tillverkning, samt investeringar som gjorts genom aktiefonder. Som en kontrast uppvisade låneportföljen en nettoökning av antalet arbetstillfällen, särskilt för nyare lån och lån i Afrika.

Det viktigaste som framkom vid analysen avseende inbetald skatt var att mängden data är för begränsad för att möjliggöra meningsfulla slutsatser. Det fanns till exempel bara användbara data för två år. Sett i dessa tillgängliga data varierar också nivån för betalda skatter kraftigt och den förefaller påverkas starkt av typ av finansiering, samt händelser under det aktuella året. Det kan delvis förklaras av mycket små urval, av de skäl som beskrivs ovan. Det är också så att betald skatt under ett visst år kan variera kraftigt av orsaker som inte har samband med företagets framgång, dess villighet att betala skatt eller insatserna från Swedfund. Temporära eller riktade skattelättnader kan till exempel vara en orsak. Företag kan även investera kraftigt under ett visst år, vilket minskar vinsten och därmed den mängd skatt som ska betalas.

Oavsett dessa datafrågor är det tydligt att Swedfund tar skattefrågan på allvar. Företag med komplexa organisationsstrukturer som syftar till att artificiellt sänka de skatter som ska betalas sorteras bort under due diligence fasen, och Swedfund uppmuntrar alla investeringsobjekt att betala sin beskärda del. Vid en årlig uppföljning efterfrågar man att skatter ska redovisas landvis, vilket är viktigt. Multinationella företag rapporterar ofta skatt ur ett sammanslaget, globalt perspektiv vilket gör det omöjligt att avgöra mängden betald skatt i respektive land, och hur detta kan jämföras med vad som skulle ha betalats med tanke på vinsterna i dessa länder. Aktivister på skatteområdet har länge tryckt på för en

landsuppdelad rapportering, och Swedfund förtjänar beröm för att man går i den här riktningen.

Vad gäller ESG-frågorna genomför Swedfund årligen en undersökning bland investeringsobjekten. 2014 bestod den av 132 frågor. Vissa handlade om utfall eller påverkan (t.ex. CO₂-utsläppsnivåer) och övriga berörde processer och riktlinjer (t.ex. efterlevnad av ILO:s riktlinjer). Som redan nämnts ovan har ESG-indikatorerna dock förändrats mycket över tiden. För att säkerställa jämförbarhet och fokus på kärnfrågor har utvärderingsteamet här utvecklat ett eget ESG-index baserat på 30 frågor. Utifrån detta kan vi ge investeringsobjekten en ESG-poäng som kan användas som utgångspunkt för jämförelser.

På portföljnivå ser vi ingen förändring i ESG-resultat. Med tanke på att data endast sträcker sig två år bakåt i tiden är det egentligen inte förvånande. Delar vi upp portföljen framträder en bild där lån presterar bättre än aktier, både vad gäller total poäng och förbättringar sett över perioden. Regionalt sett presterar afrikanska investeringar sämst vad gäller ESG-frågor. De latinamerikanska investeringarna får högst poäng och de asiatiska och europeiska investeringarna placerar sig i mitten.

Det är intressant att äldre investeringar har gett bättre resultat än nyare investeringar. Det antyder att Swedfund påverkar investeringsobjekten positivt över tiden. Det finns även ett eventuellt samband mellan investeringsstorlek och positiva ESG-utfall. Detta kan delvis förklaras av att större företag har mer resurser som de kan avsätta för ESG-frågor, men även att Swedfund kan utöva ett större inflytande vid större investeringar. Som med alla de ex-post resultat som redovisas här tydliggör de tidigare beskrivna frågetecknen kring dataunderlaget att det här är preliminära snarare än definitiva slutsatser.

Mot bakgrund av frågorna om data och urvalsstorlek som har tagits upp ovan kan vi inte säga mer än så. Det är möjligt att Swedfunds inverkan är större eller mindre. Vi vet helt enkelt inte. Det här väcker två viktiga frågor: Vad kan Swedfund göra för att tydligt öka de fattigdomsminskande effekterna? Går det, för det

andra, att ta fram tillförlitliga mätmetoder som kan användas för att förbättra effekterna på sikt?

Gällande den första frågan så tvingas Swedfund kompromissa. Den potentiella effekten kommer att bli störst i länder, regioner och sektorer där investeringsbehovet också är som störst. Trots att den *potentiella* effekten är störst där så kommer dock samtidigt möjligheten att förverkliga resultaten att tydligt påverkas av faktorer som institutionell kvalitet och investeringsklimat. Riskerna kommer sannolikt också att vara högre. Som studien visar står Swedfund inför betydande finansiella risker, där förluster ofta koncentreras till ett fåtal investeringar. Den ökande andelen lån i portföljen som vi har sett är en reaktion på detta. En alternativ lösning skulle vara investeringar med lägre risker, men det skulle undergräva de effekter som Swedfund försöker uppnå, och även kunna sätta i fråga i vilken utsträckning investeringarna faktiskt utgör additionell finansiering.

Vi föreslår två positiva sätt för att ta itu med detta. Ett fokus på högre risk skulle kunna påskynda investeringar med potentiellt större effekt, samtidigt som man accepterar att förlusterna kan bli högre och att Swedfund inte kan vara helt finansiellt självförsörjande. Det skulle kräva regelbundna statliga kapitaltillskott, men dessa kan samtidigt motiveras utifrån just den större effekten.

Swedfund skulle, för det andra, kunna upprätthålla finansiell självförsörjning om riskerna mildrades genom en ökad diversifiering. Detta skulle dock kräva att Swedfund var större än vad det är idag. Även den här lösningen skulle kräva att staten skjuter till kapital, men endast i form av en engångsinjektion som låter Swedfund nå en storlek där riskerna bättre kan diversifieras. I båda fallen skulle ökade ansträngningar för att förbättra investeringsklimatet i fokusländerna också vara ett viktigt komplement till investeringarna. I stället för att försöka göra det här direkt vore det lämpligt att söka partnerskap med andra utvecklingsaktörer med mer kunskap och inflytande inom dessa frågor.

Båda alternativen kräver ytterligare kapital. För att motivera detta skulle Swedfund behöva öka sina effekter och även visa tydligare vad de åstadkommer. Det i sin tur leder oss tillbaka till den andra

frågan ovan: Hur kan effekter mätas på ett robust sätt, och vilka mekanismer leder till större effekter framöver?

Med en större portfölj av investeringar skulle Swedfund få hjälp med att lösa frågan om urvalsstorlekar.

Swedfund följer, i likhet med övriga utvecklingsfinansiärer (DFIs), en omfattande och skiftande uppsättning indikatorer. Det här är problematiskt av två skäl. Viktiga indikatorer separeras för det första inte från mindre viktiga indikatorer, vilket kan medföra att de viktiga försvinner i mängden. För det andra så kan en omfattande uppsättning indikatorer göra det svårt att säkerställa att vissa indikatorer inte motsäger varandra. Snarare än att mäta ännu mer vore det bättre att fastställa vilka effekter som är viktigast, och därefter välja det lägsta antalet indikatorer som behövs för att följa just detta.

Indikatorerna ska dessutom utformas så att innebörden inte blir otydlig eller kan missförstås. För skattefrågor bör det till exempel alltid framgå tydligt hur mycket skatt som betalas inom varje jurisdiktion som en andel av vinsten. Det är föga meningsfullt att samla in data om så inte är fallet. Tillförlitlig utvärdering kräver även jämförbara indikatorer som används över längre tidsperioder. En fråga är också vad data faktiskt fångar. Inom vissa områden är svarsfrekvensen för Swedfunds årliga undersökning alltför låg. En lösning kan vara att se till att investeringsobjekten enligt avtal förbinder sig att svara på undersökningen.

Förutom dessa efterhandsåtgärder rekommenderar vi även att Swedfund utvecklar ett tydligare ramverk för förhandsbedömningar av investeringar för att på så sätt öka effekterna. I studien går vi igenom litteraturen på områden där Swedfund potentiellt kan skapa ytterligare effekt. Förutom lands- och sektorval, ingår val av investeringsobjekt och förvaltnings- och styrningseffekter. I ett senare skede bör ett sådant ramverk också byggas på information om Swedfunds resultat (ex post), där resultaten belyser sektor- och projektval, eller det bästa sättet att framgångsrikt och långsiktigt arbeta med investeringsobjekten.

Sammanfattningsvis är våra rekommendationer:

- Swedfunds fokus på låginkomstländer och sektorer med den största potentiella utvecklingseffekten inom dessa länder bör stärkas.
- För att möta den ökade investeringsrisken som det här medför föreslår vi två alternativa strategier:
 - (i) Swedfund blir en mer specialiserad utvecklingsfinansiär som fokuserar på investeringar med hög risk/hög effekt, och som samtidigt accepterar portföljförluster och hanterar detta genom regelbundna kapitaltillskott från regeringen.
 - (ii) Swedfund expanderar och minskar riskerna genom att utveckla en mer diversifierad portfölj. Det skulle möjliggöra ett fortsatt fokus på investeringar med hög risk/hög effekt inom ramen för en mer diversifierad portfölj. Samtidigt som det gör det möjligt att fortsatt vara finansiellt självförsörjande, krävs ett stort engångskapitaltillskott.
- Eftersom investeringsklimatet i de olika länderna inverkar på möjligheten att förverkliga potentialen bör Swedfund samråda med utvecklingsaktörer med inriktning på dessa frågor.
- Swedfund bör fokusera på ett litet antal centrala målsättningar i fråga om effekt, och utveckla ett mindre antal indikatorer som gör det möjligt att följa just dessa effekter.
- Ett ramverk bör tas fram för att på förhand välja investeringar med största möjliga potentiell effekt.
- Indikatorer bör utformas för att vara entydiga och meningsfulla.
- Grundläggande data bör samlas in vid investeringstidpunkten, och ett antal

effektindikatorer bör löpande samlas in under investeringens livslängd. Investeringsobjekten bör vara skyldiga att svara.

- Mer tid bör ägnas åt att följa upp avslutade investeringar.
- Ändamålsenliga utvärderingsmetoder bör användas. De bör i allmänhet bestå av en blandning av kvantitativa och kvalitativa metoder där frågor om kausalitet och attribution ges full vikt.
- Resultaten i efterhandsbedömningar av effekt bör användas som underlag för sektor- och projektval för en dynamisk förbättring av utvecklingsresultaten över tid.

Summary

Development Finance Institutions (DFIs) are increasingly important development actors. The proportion of ODA being allocated to DFIs is increasing in most countries, reflecting the greater priority being given to private sector development, and the belief that supplying finance to firms in low-income countries is an essential part of meeting the Sustainable Development Goals. If current trends continue, DFI funding will ultimately outstrip traditional ODA. Much depends on their success.

It is within this context that this evaluation addresses the following question: Have the investments undertaken by Swedfund contributed to poverty reduction and, if so, to what extent and how?

While we find indications that Swedfund is having a positive impact on poverty through its activities, it is not possible to definitively answer this question based on the data made available to us.

There are two ways of approaching the question, both of which were undertaken in the study. First, we can look at the investments in terms of countries and sectors, and assess whether these would be *likely to* reduce poverty. This *ex ante* assessment finds that Swedfund largely invests in countries where their finance would be additional to what is available. Based on the reasonable assumption that additional investment in capital-scarce countries with high poverty rates will have a positive effect, this is likely to reduce poverty. It is also the case that Swedfund is shifting its full portfolio to investments in low-income countries, so these effects can be expected to increase over time.

On sectorial allocations, the picture is more mixed. Although Swedfund does focus on sectors with high employment generation potential (e.g. manufacturing), it has phased out investments in agriculture, despite the evidence that this sector has the greatest poverty-reduction potential. At the same time, as with a number of DFIs, Swedfund has increased its allocation to the financial sector. Beyond general findings of a positive relationship between financial

sector development and growth, there is little evidence that this will be particularly positive in terms of poverty reduction.

Our ex ante assessment therefore concludes that Swedfund's investments are likely to be having a positive impact on poverty, but that this could be increased with a greater concentration on poverty-reducing sectors, and an acceleration of the portfolio shift towards low-income country investments.

The second way of assessing impact is to examine changes in key development indicators during and after investments. For this ex post assessment, Swedfund provided us with data in four areas: financial performance; employment; tax; and ESG (environmental, social, governance). Before considering the findings, some general points about the data need to be made.

First, Swedfund is a relatively small institution. As a result, its current and historical portfolio is also quite small. As well as precluding most quantitative evaluation techniques, this means that the changes we see can be heavily skewed by a small number of investments, sometimes even one.

Second, the data provided was only available for a small number of years. This was three years in some cases, but only two in others. This does not mean that Swedfund did not collect data before this, but rather that earlier data is not comparable and so cannot be used for evaluation purposes. DFIs such as Swedfund receive regular instructions from governments to focus on new areas, requiring new indicators to be identified and tracked. Also, M&E trends within the DFI community are constantly evolving, which again often leads to the adoption of new indicators. The resulting lack of a consistent set of indicators make comparison over time very difficult.

Third, no baseline data was available to capture the situation at the point of investments. As a result, we cannot say what changes have occurred over the life of investments, as we can only see what has happened during the two or three year that data is available. This means that positive (or negative) impacts could have occurred at earlier stages of the investment, but we have no way of knowing this.

Fourth, while financial data was provided for 2013-15, these were reliant on stakeholder information which was not available evenly across the indicator set. For example, in 2014 the response rate of those surveyed on employment was 72 percent but for tax paid it was 31 percent. Given that sample sizes are quite small anyway, this further constrains the analysis.

Finally, Swedfund's approach to ESG issues is relatively new, limiting the conclusions that can be drawn on the impact it may ultimately generate.

With these caveats in mind, the following ex post results were obtained.

On financial performance, 2013-15 saw revenues grow for Swedfund's investee companies, both in total and on average. This growth, however, was driven by the loan portfolio, and to a lesser extent, equity investments in individual firms. Equity investment through funds, in contrast, performed poorly over the same period, with losses concentrated in a few large investments. It is important to note that we cannot say that the improved financial performance of the portfolio was the result of Swedfund's actions. This may be the case, but it may also be because the proportion of loans in the portfolio has increased, and loans tend to perform better than equities.

This highlights the risks that a relatively small DFI such as Swedfund faces. Given its size, there are limits to how much risks can be diversified away. As Swedfund is increasingly focusing on lower-income countries where risks are likely to be higher, this problem may become greater over time. One response to this would be to reduce the risk in the portfolio – by increasing the weight of loans, or investing in less risky ventures, for example – but this may result in lower development impacts. Other options to address this important issue are considered below.

On employment, the overall portfolio shows little impacts, positive or negative. This masks considerable variation, however. Swedfund's equity portfolio saw a net loss of jobs, which were disproportionately concentrated in older investments, investments in Asia, manufacturing, and investments made through equity funds.

The loan portfolio, in contrast, saw net job creation, particularly in more recent loans, and those located in Africa.

The most important thing to emerge from the analysis of tax is that the data is too limited to allow meaningful conclusions. Usable data was only available for two years, for example. For the data we have, the level of tax paid is very volatile, appearing to be strongly influenced by the type of financing, as well as the particular year. In part, this can be explained by very small sample sizes, for the reasons described above. It is also the case, however, that the tax paid in any given year can vary enormously for reasons unconnected with the success of the firm, its willingness to pay tax, or the efforts of Swedfund. Tax holidays may be a feature, for example, or firms may invest heavily in a particular year, reducing profits and therefore tax paid.

Despite these data issues, it is clear that Swedfund takes the issue of tax seriously. Firms with complex structures designed to artificially lower taxes due are screened out at the due diligence phase, and Swedfund strongly encourages all investees to pay their fair share of tax. Its annual survey requests taxes paid are reported on a country-by-country basis, which is important. Multinational firms report taxes on a consolidated, global basis, making it impossible to know how much tax has been paid in each country, and how this compares to what should have been paid given profits made in these countries. Campaigners on tax have long pressed the case for country-by-country reporting, and Swedfund is to be commended for taking this important step.

On ESG issues, Swedfund undertakes an annual survey of investees. In 2014 this had 132 questions some of which related to outcomes (e.g. levels of CO₂ emissions), with the remainder concerning processes and guidelines (e.g. adherence to ILO guidelines). As discussed above, ESG indicators have changed considerable over time. To ensure comparability and a focus on core issues we constructed an ESG index based on 30 questions, enabling us to assign a comparable ESG 'score' to investees.

At the portfolio level, we find no change in ESG performance. As we only have two years of data, this is not really surprising. Disaggregating the portfolio, we find loans perform better than

equities, both in terms of the total ‘score’ and the improvement seen over the period. Regionally, African investments perform worst on ESG issues, with Latin American investments having the highest scores, and Asian and European investments in the middle.

Interestingly, older investments perform better than newer ones, suggesting that Swedfund may be positively influencing its investees over time. We also find a potential relationship between investment size and positive ESG outcomes. This may be partly explained by the fact that larger firms have more resources that they can devote to these issues, but also that Swedfund is able to exert greater influence when its investment is larger. As with all the ex post results reported here, however, the data issues described mean that these are indicative results rather than definitive findings.

Given the data and sample size issues that have been discussed, we cannot say more than this. It is possible that Swedfund’s impact is much larger or smaller than it appears. We simply do not know. This raises two important questions: First, how could Swedfund significantly increase its poverty impacts? Second, how could this be robustly measured and used to improve impacts over time?

For the first question, Swedfund faces a trade-off. Its potential for impact will be greatest in countries, regions and sectors where the need for investment is greatest. While *potential* impacts are greatest, the ability to realise these will be influenced by factors such as institutional quality and the investment climate. Risks are also likely to be higher. As document in this study, Swedfund faces significant financial risks, with losses often concentrated in a few investments. The increase in the proportion of loans in the portfolio that we have seen is one response to this. Another response would be to invest in lower risk ventures, but this would undermine the impacts that Swedfund is trying to achieve, as well as calling into question the extent to which its investments are financially additional.

We suggest two positive ways that this could be addressed. First, the focus on higher-risk, more potentially impactful investments could be accelerated, with an acceptance that losses will be higher and Swedfund may not be able to operate on a financially self-

sufficient basis. This would require regular injections of capital from the Government, but could be justified on the basis of impact. Second, Swedfund's financial self-sufficiency could be maintained if risks were mitigated through greater diversification. This would require Swedfund to be larger than is currently the case, however. Again, this would require a capital injection from government, but this would be a one-off designed to enable Swedfund to reach a sustainable size such that risks could be well diversified. In both cases, increasing efforts to improve the investment climate in focus countries would be an important complement to investments. Rather than trying to do this directly, partnering closely with other development actors with more expertise and leverage on these issues would make sense.

Both options require additional capital. To justify this, Swedfund would need to increase its impacts, and demonstrate that it is doing so. This brings us back to the second question posed above: how can impact be robustly measured, and what mechanisms can best drive increasing impact over time?

If Swedfund grows its portfolio, this would help to address the issue of sample size. Swedfund, as with all DFIs, tracks a large and varied set of indicators. This is problematic for two reasons. First, key indicators are not differentiated from less important ones, potentially 'drowning them out'. Second, a large set of indicators makes it difficult to ensure that some do not contradict each other. Rather than measure ever more things, a better approach would establish which impacts are most important, and then choose the minimum number of indicators to accurately capture these.

Indicators should be also designed such that meaning cannot be obscured or misinterpreted. For example, tax questions should elicit clearly how much tax is paid in each jurisdiction as a share of profits in a meaningful way. There is little point collecting data if this is not the case. Robust evaluation also requires comparable indicators to be used over lengthy periods of time. A final point is data coverage. Response rates to Swedfund's annual survey are very poor in some areas. One solution could be to make this part of the contractual obligations of investee firms.

As well as these ex post measures, we also recommend that Swedfund develop a stronger ex ante framework to enhance potential impacts. In this study, we review the literature on areas where Swedfund could potentially create additional impact. As well as country and sector choice, these include project selection and management impact. In time a framework of this kind should be informed by Swedfund's ex post impacts, where these results inform choices such as sector or project selection, or the best way to engage with investees to maximise impact over time.

To summarise, our recommendations are that:

- Swedfund's focus on low-income countries and the sectors with the greatest potential development impact within these countries is strengthened.
- To address the increase in investment risk this would create we propose two options:
 - i. Swedfund becomes a more specialist DFI focusing on high-risk/high-impact investments, but accepts that this will increase losses in the portfolio, and require regular capital injections from government to support this.
 - ii. Swedfund expands and develops a more diversified portfolio to mitigate risk. This would enable the focus on high-risk/impact investments to continue within the context of a more diversified portfolio. While this would make it possible retain financial self-sufficiency, it would require a large, one-off capital injection.
- As the ability to realise potential will be affected by the investment climate in different countries, Swedfund should coordinate with development actors focused on these issues.
- Swedfund should focus on a small number of core impact objectives, and design as few indicators as possible to track these impacts.
- A framework should be developed to select investments with the greatest potential impacts.

- Indicators should be designed to be unambiguous and meaningful.
- Baselines should be taken at the point of investment, and a core of impact indicators gathered consistently over the life of the investment, with investee companies required to respond.
- More consideration should be given to following up with exited investment.
- Appropriate evaluation methods are used. Generally, these should be a mix of quantitative and qualitative approaches, with issues such as causality and attribution given full weight.
- The results of ex post impact assessments should be used to inform sector & project selection and so drive a dynamic improvement in development impact over time.

1. Introduction

Development Finance Institutions (DFI) are bilateral and multilateral agencies which invest in firms in developing countries to promote private sector development. They have become increasingly important development actors, and this trend looks certain to continue. While total Overseas Development Assistance (ODA) has been flat in real terms since 1990, DFIs' investments have grown steadily at around 5 percent per year. In 2014, net ODA to developing countries was USD140bn, while DFI commitments had reached USD65bn (EDFI, 2016). At the same time, an increasing quantity of ODA finance is being used to support private sector development efforts, either as technical assistance (TA) grants to complement DFI investments, or as 'blended finance' where grant finance is directly combined with commercial investment. European bilateral DFIs represent around a half of global DFI flows, exceeding USD33bn in 2015, having tripled in size over the previous ten years. If these trends continue, DFI investments may ultimately reach parity with ODA (ibid.).

An important question to ask is why? There are two sorts of answers to this question. First, a positive case can be made for investment to support private sector development (PSD) in general, and DFIs in particular. Most people accept that the primary route out of poverty is employment, and 90 percent of new jobs in low- and middle-income countries are created by the private sector (IFC, 2013). From this perspective, therefore, the best way to reduce poverty is through creating private sector jobs. For these impacts to grow sustainably, companies need to be commercially viable. Fostering successful companies, is thus a legitimate and central objective of DFIs.

As well as incomes, entrepreneurial opportunities, and the infrastructure upon which economic and social systems rely, the private sector is the main provider of the goods & services (G&S) people need and want (Avis, 2016). Increasing their ability to supply high quality G&S at an affordable price is another important goal of DFIs. It is therefore impossible to imagine the Sustainable Development Goals (SDGs) being achieved in any country that

does not have a vibrant and inclusive private sector. By supporting the creation and expansion of competitive firms, DFIs are at the heart of this effort.

The second type of answer is more negative. On the one hand, there is less faith that ODA can achieve its desired goals, and it is even seen as an obstacle to development by some. Moving away from grant financing is in line with this. At the same time, many donors remain under pressure to cut spending, with fiscal deficits stubbornly high a decade after the global financial crisis. Grant financing is not repaid. Investments, in contrast, can be recouped, recycled and reused. As well as obvious value-for-money attractions, this is likely to appeal to those looking for areas of government spending to cut.

Given reduced confidence in the ability of ODA to deliver, irrespective of how justified this is, a similar shift with respect to DFIs could be fatal for the whole idea of international development cooperation. For anyone concerned with achieving the SDGs, it is very important that DFIs succeed.

This paper explores these issues through the lens of one particular DFI: Swedfund. All DFIs are different of course, but the challenges and opportunities that Swedfund faces are similar to those faced by comparable institutions. It is therefore hoped that this study is of wider interest in the DFI community.

As we shall see, the balance of evidence suggests that Swedfund is having a positive impact on poverty, primarily through the supply of additional finance in capital-scarce countries, and through its ability to positively influence investee firms on ESG issues. We find little impact in other areas, but because of data limitations it is impossible to say whether this is because there is no impact, or whether we are just not able to detect it.

To address this, we make clear recommendations on indicators, data collection, and methodology, and propose the adoption of an ex-ante framework (designed to select, structure and manage investments such that potential development impacts are maximised) and ex post framework (designed to robustly measure the extent to which these potential impacts are achieved).

We also address an important structural question, and argue that Swedfund's impact will be greater if it strengthens and accelerates its focus on low-income countries, and on investments with the greatest potential development impacts within these countries. This would inevitably increase the risks that Swedfund faces, leading to more losses across the portfolio. One solution, would be to accept that more impact requires more risk, and that Swedfund may therefore face periodic losses, and require regular capital injections to balance its budget.

The second option would be to increase the capital base, enabling Swedfund to diversify risk across a larger portfolio. This would also require a capital injection, potentially a significant one, but a larger, more diversified Swedfund would be more likely to be able to operate on a self-sufficient basis. This could therefore be a one-off injection of capital.

Our findings suggest that Swedfund may be able to exert greater influence in areas such as ESG when its stake in the company is larger. An expanded portfolio would therefore also give Swedfund greater potential to positively influence firm behaviour.

To justify either forms of additional public funding, a more systematic approach to maximising development impacts, and to measuring and demonstrating these impacts, would be required.

The next section gives some background on DFIs in general and Swedfund in particular, while part 3 describes our approach to the evaluation. Parts 4 and 5 present ex-ante and ex-post findings on Swedfund's impact, following which part 6 proposes an ex-ante framework to systematically enhance future impacts. The final section of the paper makes recommendations and concludes.

2. Background

2.1 Development Finance Institutions

As described above, DFIs have become increasingly important development actors. They are agencies which provide financial support for firms in developing countries, with the aim of contributing to private sector development (PSD). DFIs generally provide a mix of equity and loans, and some also provide guarantees. In addition, many DFIs provide technical assistance in the form of advice or training to support their investments. Most bilateral DFIs are wholly publicly owned,¹ but some mix public and private ownership.² The Swiss DFI (SIFEM) is privately owned. The IFC is the primary multilateral DFI, and is owned by national government stakeholders (te Velde, 2011).

Within the shared parameters of promoting PSD, DFIs have slightly different mandates. This may be some combination of: supporting or promoting financially sustainable firms; attracting private co-investment; increasing the private investment through demonstration effects; maximising the development impacts of their investments (ibid.). Some DFIs are required to be financially autonomous, funding their activities through their own revenues, while others may receive regular or periodic capital injections from the state. DFIs operate in low- and to a lesser extent, middle-income countries. Some explicitly target low-income countries, as well as ‘frontier markets’.

2.1.1 DFIs and development impact

Essentially, there are three models of development impact assessment. The first is based on the Good Practice Standards

¹ CDC (UK); DEG (Germany); Swedfund (Sweden); Norfund (Norway); OPIC (US).

² PROPARCO (France); FMO (Netherlands); COFIDES (Spain); SIMEST (Italy).

(GPS), developed by the Evaluation Cooperation Group (ECG)³ and influenced by the IFC (Sinha, Bortes and Grettve, 2010). The ECG and the GPS were established in 1996 ‘to promote a more harmonized approach to evaluation methodology’ among MDBs (ECG, 2014).

The second model is based on the German Investment Corporation’s (DEG) Corporate Policy Project Rating (GPR). This was launched in 2000 and has been adopted by 15 DFIs⁴ other than DEG (Dalberg, 2010; Sinha, Bortes and Grettve, 2010; Kingombe, Massa and te Velde, 2011; DEG, 2013).

Remaining approaches are generally hybrids of the frameworks above, but with features of particular importance to national DFIs added or extended. Such bespoke approaches have been developed and implemented by Swedfund, the CDC, and FMO (Sinha, Bortes and Grettve, 2010).

While these approaches have important differences – the indicators they use to track outcomes, for example – there are also similarities. First, they generally capture outcomes in the same four areas: i) financial performance (e.g. the company’s profitability, the return to the DFI (internal rate of return – IRR)); ii) economic performance (e.g. taxes paid, number of jobs created), iii) environmental and social performance (e.g. CO2 emissions, low-income homes financed), and iv) PSD (with various indicators relating *inter alia* to demonstration effects, corporate governance, investment climate, and linkages) (Bracking and Ganho, 2011; Kingombe, Massa and te Velde, 2011). Second, most use both *ex-*

³ The members of the ECG are: the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (ERBD), the Inter-American Development Bank (IADB), the Inter-American Investment Corporation (IIC), the Multilateral Investment Fund (MIF; a part of the IADB group), the IFC and the Multilateral Investment Guarantee Agency (MIGA).

⁴ They include: AECID (Spain), Bio and SBI-BMI (Belgium), COFIDES (Spain), Norfund (Norway: but only for monitoring and evaluation), OeEB (Austria), Proparco (France), SIFEM (Switzerland) (Bracking and Ganho, 2011, p. 17) (Gössinger and Raza, 2011, p. 22; p. 25) (EU, 2013, p. 42).

ante and *ex-post* assessments, and mix qualitative and quantitative methods (Kingombe, Massa and te Velde, 2011).

Overall, therefore, DFIs approach impact in similar ways (Lemma, 2015). Possible projects are assessed according to potential development impact using sector or project-related indicators. These *ex-ante* assessments are typically based on available documents and discussions with clients.⁵ Some DFI project managers (e.g. from DEG) also conduct onsite visits, which can inform qualitative assessments (e.g. on social benefits, or market effects) (DEG, 2013). Third-party data such as government statistics or international databases are also used, but to lesser extent, at least within the IFC (IEG, 2013). *Ex-post* assessments are conducted during and at the end of projects, with performance evaluated on the same indicators as those used in the initial appraisal (DEG, 2013; EU, 2013; Lemma, 2015).

Indicators used depend on the economic sector (e.g. agriculture, manufacturing) as well as the DFIs' own preferences. According to an EU report, these reflect 'their respective mandates and idiosyncrasies' (2013: 32). Despite these differences, various sector-specific and common indicators have been, and continue to be, developed by DFIs.⁶ Twenty-five DFIs, including FMO, CDC, Swedfund and the IFC, agreed in 2013 to harmonise the indicators they use to assess development impacts, including using specific indicators by sector. Of the 27 core indicators developed, 15 are aligned with the Impact Reporting and Investment Standards (IRIS).⁷

Regarding DFI tracking of development indicators within this framework, the Harmonized Indicators for Private Sector Operations (HIPSO) website states that DFIs 'will use the harmonized definitions and units of measurement', and that 'if it has

⁵ Quantitative data (e.g. jobs, exports) can usually be taken from annual financial statements and/or business and other reports (DEG, 2013; IEG, 2013).

⁶ These typically include the number of beneficiaries living below the poverty line (whose living conditions are improved by the project); jobs created/sustained; tax generated and contributed to the government (Sinha, Bortes and Grette, 2010; EU, 2013).

⁷ More information on these indicators can be found here: <https://indicators.ifipartnership.org/indicators/>.

a results tracking system in place that already features indicators that are the same as the harmonized ones, it will replace them accordingly' (HIPSO, 2015). Despite this, it remains quite unclear to what extent DFIs have actually incorporated the HIPSO into their development assessment frameworks. For Lemma (2015) the limited detail provided on investment impacts by DFIs (apart from indicators such as employment and tax contributions) makes the assessment of the comparability of indicators across DFIs difficult.

It seems clear that DFIs do not lack indicators: the most recent taxonomy presented by IRIS contains over 500 base indicators. What is less clear is that these indicators are accurately capturing the most important development impacts being created by DFIs, or that they are internally consistent. From an environmental perspective, for example, a DFI may measure Co2 emissions, which growth being seen negatively. At the same time, they may positively assess an increase in sales and financial performance, despite it being this which led to emissions growth. These are difficult questions, but they will not be resolved by simply counting more things.

2.1.2 Project Rating

Decisions to fund projects are based on a combination of projected financial returns and development impacts, established with baselines and targets, and estimated by project officers or managers using the documentation and data at hand (Gössinger and Raza, 2011). Based on these indicators and 'an informed judgment by the evaluator' (ECG, n.d., p. 10), project officers or managers typically give the projects a rating. The GPR, for example, assesses projects with a rating out of 500, while until 2014 the FMO used a scorecard to rate projects on a scale of 99 (Carnegie Consult and ODI, 2014).

Issues have arisen over the way that DFIs rate projects. One study found FMO staff focused too much on 'financial aspects', for example (Gössinger and Raza, 2011: 33). Again with respect to FMO, another concluded that: 'a lot relies on the knowledge of IOs [investment officers] and IMTs (rather than detailed modelling studies) and some complete an EDIS scorecard in just a few hours and sometimes after the project has progressed to CIP [Clearance

in Principle] stage, casting doubt on the use of EDIS as a steering tool.’ (Carnegie Consult and ODI, 2014: 43-4). This brought them to the conclusion that an EDIS score ‘did not appear to be used convincingly as a steering tool’ (ibid: 44).

In a review of DFIs in the infrastructure sector, Spratt and Ryan-Collins (2012) find, similarly to Gössinger and Raza, op cit), that DFIs may overweight potential financial returns relative to other objectives. They find that this is more likely to be the case when DFI officer’s incentives are closely aligned with the financial performance of investments, and more broadly, where DFIs are required to be financially independent.

The GPR has also been criticised on a number of counts. First, ‘highly complex concepts’ such as ‘gender and social effects [of investments]’ are very difficult to define, let alone measure accurately. As a result, ‘it is impossible to define on a general basis whether a project is “worth” 0 points, 15 points or something in between’ (Gössinger and Raza, 2011: 33). Second, the way that points are weighted in the GPR means that the ‘development effects/sustainability’ of projects (which is essentially the *raison d’être* of DFIs) can only account for half of the rating at most, and a project can receive a rating of just 50/150 on this measure and still be approved if it scores well elsewhere (ibid). Given that 15 other DFIs also use the GPR, these are important issues.

A more general problem, as discussed above, is the very large number of indicators now commonly used by DFIs, with little or no attempt to weight these in terms of importance. In these circumstances, the importance that can be attached to any single indicator, or group of indicators, *must* be less than if fewer indicators were used. But if some indicators are more important than others from a development perspective, and this must surely be the case, then the most important indicators will not be given the prominence that they should. In effect, they will be ‘drowned out’ by the plethora of indicators. Part of the problem may be that, when new indicators are developed and accepted as important, they tend to be added to what was already there, rather than replacing others now deemed less important. Over time, therefore, multiplication – and dilution – is inevitable.

2.1.3 Asset Allocation

Table 1 gives a breakdown of DFI sector allocations from a few years ago. This will certainly have changed now, significantly so in some cases, but it remains helpful in illustrating the variety of approaches taken by DFIs to asset allocation, which persists. At the most extreme, there are sector focused institutions such as the Private Infrastructure Development Group (PIDG). Others, such as OPIC are heavily weighted towards a small number of sectors. In OPIC's case, this is finance and infrastructure, where 57 and 27 percent respectively of the portfolio is invested. SIMEST (Spain), in contrast, devoted a very small amount to finance, but 78 percent of the portfolio to industry and manufacturing. Other DFIs (CDC and FMO) were more diversified. A first way of distinguishing between DFIs is thus their degree of diversification or concentration across sectors.

Even the most diversified DFIs are not evenly weighted across sectors, suggesting prioritisation. This raises the question of the criteria that DFIs are using to allocate their assets by sector? One relevant feature that is not seen in Table 1, is the fact that bilateral and multilateral DFIs are increasingly investing in the financial sector (Kwakkenbos, 2012). The World Bank Group, for example, committed a third of its portfolio to the financial sector between 2009 and 2013, more than half of its portfolio if short-term trade finance is included (Chowla and Kenner, 2014).

Table 1: DFI Sector allocations 2009

Sectoral distribution of DFIs' 2009 portfolio	Financial sector	Infrastructure	Agri-business	Industry/ manufacturing	Other	No. of projects
Bilaterals						
BIO	45%	20%	5%	30%	N/A	93
CDC	23%	34%	6%	18%	19% (i)	794
COFIDES	1%	45%	5%	47%	3%	117
DEG	35%	19%	13%	27%	6%	670
Finnfund	19%	28%	1%	44%	7%	129
FMO	42%	24%	3%	30%	2%	904
IFU/IØ/IFV	5%	10%	15%	63%	8%	307
Norfund	23%	55%	5%	11%	5%	83
OeEB	100%	N/A	N/A	N/A	N/A	14
Proparco	45%	36%	4%	12%	2%	354
SBI	21%	13%	18%	47%	0%	24
SIFEM	18%	3%	N/A	79%	N/A	63
SIMEST	2%	8%	8%	78%	4%	341
SOFID	N/A	N/A	N/A	100%	N/A	3
SwedFund	8%	22%	1%	64%	5%	72
OPIC	57%	27%				
Multilaterals (commitments in 2009)						
PIDG		100%**				
AfDB (ii)	10.8%	52.1%		7%	29.1%*	
ADB (iii)	3.9%	39.9%	3.4%	0.8%	52%	
EBRD	36%	37%	8%	18%	N/A	327
EIB	2%	65%	10%	23%	N/A	N/A
IFC	48%	25%	2%	25%	N/A	567

Note: Others e.g. include: Global Financial Markets; Global Manufacturing & Services; Health & Education; Oil, Gas, Mining & Chemicals; Sub-National Finance; Information and Communication Technology (ICT); etc. (i) In the case of CDC, the underlying portfolio 'other' sector category e.g. includes: Health Care 8%; Mining 6%; Others 6%. (ii) Loan and grants approval by sector in 2009. (iii) Loans. (*) Multi-sector. (**) PIDG is focused solely on infrastructure development, which sets it apart from many other donor-funded initiatives. Source: Kingombe et al. (2011)

2.1.4 Evidence on asset allocation and impact

DFIs aim to achieve development impact in broadly similar ways – i.e. by fostering PSD which creates employment and incomes, provides goods & services, drives local and national economic development, and generates tax revenues for government. Clearly, potential impacts will be larger in some situations than others: asset allocation matters for development impact. First, there is the country in which DFIs invest, and second, the sectors prioritised within these countries. On the first of these, potential impacts will be greatest in countries where the need is greatest – i.e. where poverty is highest – and where the private sector is least developed and therefore has the greatest potential to contribute to this. While this is true in terms of potential impact, it should also be noted that this potential is more likely to be realised in some circumstances than others, particularly where an institutional framework that is broadly supportive of PSD exists. On the second factor, some sectors will generate more jobs, provide more valuable G&S, or contribute more to inclusive growth.

A third consideration is accrued experience. Sinha et al. (2010) suggest that DFIs may choose to focus their investments in particular sectors because of their expertise in these areas, and because other DFIs may already be focusing their activities in other sectors. Intuitively it seems plausible that focusing on fewer sectors may have advantages, enabling DFIs to generate sector specific know-how, provide better services and manage investment risks in these sectors better (Gössinger and Raza, 2011).

It is not clear from the literature or DFI documents to what extent this third consideration drives decisions on asset allocations. More broadly, it is not always clear what considerations do drive these decisions. As discussed above, some sectors are likely to have greater potential development impact than others. What does the literature tell us in this regard?

After reviewing the literature on the contributions of various sectors to development, Sinha et al. (2010) argue that DFIs should focus on investments in agriculture, where development impacts are likely to be very high in lower-income countries. Such investments

are seen as overly risky, however, and many bilateral and multilateral DFIs (i.e. FMO, IFC and EBRD) have turned away and/or reduced their portfolios in these areas because of poor returns (ibid.).

As well as broad-based impacts, some sectors have high potential with respect to poverty. In this regard, Loayza and Raddatz (2010) argue that more labour intensive sectors (in relation to their size) tend to have stronger effects on poverty alleviation. Based on this logic they find that ‘agriculture is the most poverty-reducing sector, followed by construction, and manufacturing; while mining, utilities, and services by themselves do not seem to help poverty reduction’ (p. 148).

A number of studies have looked at the employment potential of different sectors. For example, Basnett and Sen (2013) find that manufacturing, services, textiles and leather, and agri-business and agro-processing contribute most to employment.

Another key form of impact – and important objective of DFIs – is the promotion of growth, particularly ‘pro-poor’, or ‘inclusive’ growth. Massa (2011) finds that infrastructure and agriculture both contribute the most to growth specifically, Osmani (2002, cited in Byiers et al., 2015) suggests that the pro-poorness of growth depends on three features:

- ‘the sectoral composition of output and whether it is concentrated in more labour-intensive sectors, where the poor tend to work;
- the extent to which more labour-intensive techniques are used, and the extent to which there are discernible shifts in the structure of employment towards high-productivity sectors;
- the evolution of real wages and earnings more generally, and the extent to which the internal and external terms of trade improve for the labour-intensive sector’.

These findings stress the importance of labour-intensiveness of sectors of the economy (which is particularly relevant in developing countries), providing support for DFIs that focus on this issue.

One DFI that is explicit about its asset allocation strategy in this regard is CDC, where sectors are targeted on the basis of their propensity to ‘generate employment’ (CDC, 2012:1). This propensity estimated with ‘country-level input/output tables aggregated and averaged at the low income country level’ (Carnegie Consult and ODI, 2014: 113). While this is to be commended, its value is weakened by the fact that average sector employment scores are used across developing countries. Estimating direct and indirect employment effects of investments is a very location- and sector-specific task. The crucial factors are the proportion of domestic involvement in supply chains, which varies widely between sectors in the same country, but also the same sectors in different countries. CDC accepts this but argues that poor data availability at the country-level prevents a more detailed analysis (Carnegie Consult and ODI, 2014).

As described above, DFIs have significantly increased their financial sector investments. This is justified on the basis that channelling funding through intermediaries (including banks, funds and financial service companies) they can better serve micro, small and medium-sized enterprises (MSMEs), while also reducing transaction costs (Romero and Van de Poel (2014). Despite the increasing focus of DFIs, there is little evidence that investments in finance are particularly important in terms of development impact, beyond the general finding that financial sector development is positively correlated with growth (Arcand et al, 2012). Another issue, as pointed out by the World Bank’s Independent Evaluation Group, is that it is virtually impossible to track the development impacts of investments channelled through financial institutions, making it very difficult to substantiate claims of impact (IEG, 2013).

While the development potential of financial sector investment is unproven, the evidence suggests that the extractives sector investments offer little in the way of employment potential, or forward and backward linkages to the rest of the economy (Szirmai et al., 2013). Although some sectors will have more impact potential, both generally and with respect to particular outcomes, Lin and Monga (2010) stress the need to focus on sectors which may hold a latent comparative advantage in particular countries. If firms enter

such sectors, '[t]hese firms will claim largest possible market shares and create the greatest possible economic surplus in the form of profits and salaries' (Lin and Monga, 2010: 4).⁸ For developing and low-income countries in particular, which typically have abundant labour or natural resources and scarce capital, their comparative advantage will be in labour-intensive or resource-intensive industries (Lin and Monga, 2010; Campbell and Ahmed, 2012). Kingombe et al. (2011) support the idea of focusing on sectors where countries have a potential competitive advantage, particularly where these also have a large positive effect on growth and poverty.

To summarise, asset allocation is likely to have the greatest positive impact on development outcomes when the following three conditions are met:

- i) Investments are focused in low-income countries, and in the poorest regions of these countries.
- ii) Investments are focused in sectors with the greatest potential development impact in areas such as poverty reduction, employment and pro-poor growth. The unique circumstance of different countries means that it is not possible to specify sectors (and sub-sectors) that will always have the greatest development impact. That said, a thorough review of the literature suggests that, in the aggregate, the following ranking of sectors is a reasonable position from which to start: 1) agriculture; 2) manufacturing (especially food processing and light industry such as textiles); 3) infrastructure/

⁸ The authors propose a six-stage methodology for identifying the most promising sectors, which includes issues such as: factor endowments, the historical experience of similar countries, and the use of tools such as the 'growth diagnostics' framework to identify location-specific obstacles to growth. The approach is endorsed in the IFC Jobs Study (2013), which argues that '[w]hile industry-specific efforts could be effective, they require very careful diagnostics on country-specific competitive advantages and growth barriers' (p. 53).

- construction/energy; 4) services (including retail, hospitality, tourism); 5) the financial sector; 6) extractives.⁹
- iii) Investments are focused in sectors where countries have the greatest potential competitive advantage going forward.

2.2 Swedfund

2.2.1 Ownership, governance and funding

Swedfund was established in 1979 under the Ministry of Foreign Affairs. In 2014, ownership of Swedfund changed to the Ministry of Finance, and switched again to the Ministry of Enterprise and Innovation in 2015 (Swedfund, 2015). While the Ministry of Enterprise and Innovation has full ownership, the Foreign Ministry retains responsibility for ‘relevant issues, development policies and state supported export credits’ (Swedfund, 2014). Swedfund’s board, consisting of eight members, is nominated by the Ministry of Enterprise and Innovation.

Kwakkenbos (2012) reports that Sweden increased the use of its ODA towards private sector development seven times between 2006 and 2012. Eurodad estimates that about 2 percent of direct bilateral assistance is drawn from aid budgets, the majority of which is channelled through DFIs (same as for the Netherlands and Norway) (Kwakkenbos, 2012). Finally, Swedfund received €133 million in increased capital between 2012 and 2015, representing a 62 percent increase. Following a 2015 shift to renewables within the energy portfolio, Swedfund received a further capital injection of SEK 400 million in 2016 from the Swedish government for the purpose of “promoting investments in sustainable solutions for the environment and climate that will lead to a switch to renewable energy” (Swedfund, 2016). From 2017, only renewable energy investments are permitted. In November 2016 Swedfund also

⁹ Water and Sanitation, health and education are not included in the ranking since little assessment of their development impacts within the context of DFI investments has been undertaken.

received confirmation of an additional SEK 400 million for the 2017 financial year.¹⁰

2.2.2 Mandate and high-level objectives

Swedfund's mandate and objectives are to:

Contribute to the goal of Sweden's Policy for Global Development (PGD) concerning equitable and sustainable global development. The objective for the company's activities is the same as the objective for Swedfund's international aid – to contribute to creating the conditions for improved living standards for people living in poverty and facing repression. The starting point for Swedish aid is the poor and repressed individual's needs and circumstances. Swedish aid shall endeavour to achieve long-term and concrete results in the fight against poverty and contribute to economic, social and environmentally sustainable development' (Swedfund, 2015: 95).

Derived from its mandate, Swedfund has four strategic sustainability goals, which were adopted in 2013 (Swedfund, 2014):

- i) *Impact on society*, where 'Swedfund shall contribute to the creation of jobs with a good working environment and good employment terms.'
- ii) *Sustainability*, where 'Swedfund shall contribute to the creation of long-term sustainable companies in the world's poorest countries.'
- iii) *Financial viability*, where 'Swedfund shall contribute to the creation of sustainable and financially viable companies located in the world's poorest countries.'
- iv) *Anti-corruption*, where 'Swedfund shall make proactive efforts to tackle corruption internally and within portfolio companies.'

¹⁰ Source: personal communication with Swedfund staff

2.2.3 Investment approach, rationale and financial returns

Swedfund generally invests for between 7 and 10 years (Swedfund, 2015). It does not usually take an ownership stake in a company above 30 percent, though this can be exceeded if circumstances justify this. As a result, it generally co-invests with other partners. These can be private investors, or other DFIs, particularly European DFIs and the IFC (Swedfund, 2015: 21). Swedfund also provides concessional loans to small and medium-sized Swedish companies through a mechanism called ‘Swedpartnerships’, which aims to facilitate the creation of sustainable and viable companies in the investee region. Swedfund is also engaged with larger Swedish firms. For example, a partnership has been agreed with Scania concerning a biogas plant in India and with H&M on fostering a sustainable Ethiopian textile industry (Swedfund 2016: 63). The nature of the H&M partnership is that “*H&M will contribute with expertise and knowledge of the textile market as well as purchase products from suppliers that Swedfund will invest in. Swedfund will provide local market expertise and expansion investments in suppliers to H&M.*” (H&M, 2014). These partnerships have been looked at positively for the most part. Although some critics have questioned the role of “state aid” to larger businesses, it should be noted that this criticism was levelled at Sida rather than Swedfund (SVD, 2017).

While Swedfund has a quite diversified portfolio (see Table 1 above) they have prioritised the following sectors: manufacturing/industry and services, financial institutions and energy, including renewables. In its 2014 annual report, Swedfund (2015: 11) provides rationales for investing in these sectors. Regarding the manufacturing/industry and services sector: ‘[t]his sector creates jobs that lead to inclusive economic growth’. For investments in financial institutions: ‘[g]reat need for financing for customers in the private sector where multiplier effects are created through sustainable business’. Finally, regarding energy: ‘[d]emand for electricity is much greater than supply, thereby restricting growth’; and ‘[a]ccess to electricity is key to development and reducing poverty, which is why Swedfund has chosen to invest specifically in the energy sector’ (Swedfund, 2015: 43).

While these choices may be reasonable, little evidence is presented to support them. At the same time, no reasons are given for why they invest little in sectors such as agriculture, which is somewhat surprising given Swedfund’s previous recognition that ‘agriculture is one of the most important economic sectors and sources of employment in developing countries’ (Swedfund, 2010: 17).

The 2009 Sustainability Report does provide some rationale for their investment in the energy sector, i.e. previous experience with the sector, stating that ‘Swedfund has for many years been involved in investments in environmental/clean technology and energy and we focus on continuing and expanding these investments’ (Swedfund, 2010: 16). As of 2013-14, Swedfund invests to achieve impact on three pillars: impact on society; sustainability/ESG; and financial viability.

Table 2 gives Swedfund’s estimated annual profit in SEK (negative figures in parentheses), and their percentage return on opening equity from 2005 to 2014. As we can see, modest annual gains in the first few years of the period gave way to a succession of annual losses after 2009. Losses were particularly large in 2012.

Table 2. Swedfund financial performance 2005-2014

	Annual profit after tax and provisions (SEK millions)	Annual return on opening equity (%)
2005	54	N/A
2006	85	N/A
2007	17	1.23
2008	76	6.29
2009	(3)	-4.45
2010	(64)	-4.05
2011	(45)	-2.24
2012	(224)	-7.34
2013	(93)	-2.95
2014	(63)	-1.81

Note: Source: Swedfund (2015). Numbers within brackets are negative.

For Swedfund (2015) the main reason for its losses in recent years is write downs of several portfolio companies, driven by the fact that it is investing in a financially difficult countries and sectors.

Table 3 provides more detail on returns on individual investments exited in 2014. This is instructive, as it illustrates how much variability is masked by the average figures in Table 2. As we can see, internal rates of return (IRR) on individual investments range from +22.4 to -26.9 percent.

Table 3. Swedfund investments exited in 2014

Firm Name	Country	Industry	Investment form	Time (years)	Profit (MSEK)	Internal rate of return (%)
Nordrus	Russia	Hotels	Shares	10	16.8	22.4
Cimbenin	Benin	Cement prod.	Shares	22.5	35.6	11.4
Sacombank	Vietnam	Financial sector	Loan	3	13.7	7.1
Fors MW	Estonia	Forest machinery	Shares	15.5	5.3	6.7
BBSB	Belarus	Financial sector	Loan	4.5	4.4	5.8
Al Qesir	Egypt	Hotels	Loan	10	8.7	5
Prestando	China	Manufact. industry	Shares	6	-12	0
Recupero	China	Chemicals industry	Shares	6	-2.2	0
Swedmilk	Macedonia	Dairy	Shares & Loan	7	-6.2	0
Askembla	Baltic states	Fund	Shares	11	-23.9	-16
Bhutan Dairy	Bhutan	Food industry	Loan	9.5	-4	-19.6
Artheon Battery	India	Battery prod.	Shares & loan	4	-16.8	-24.2
Belstar	India	Microfin.	Shares	4	-2.4	-26.9

Source: Swedfund (2015)

2.2.4 Impact assessment

As with other DFIs (see above) Swedfund conducts an *ex-ante* assessment process, which involves a detailed questionnaire and site visits to evaluate the potential impacts of each investment. If an investment is made, a separate annual questionnaire is sent, and further site visits may also be made where necessary to assess progress on ESG risks identified. This process has five stages¹¹:

1. Lead undertakes initial assessment of the country of operation, the strategic partner and the nature of Swedfund's role. At this stage there is also a preliminary ESG screening where the proposal's business plan is assessed, and the investment is tested against exclusion criteria.
2. Initial assessment of the investment and meetings with the investment committee. Resources are allocated for due diligence and a first assessment of ESG risks is made. This forms the basis of a concept clearance note to the investment committee
3. Extensive due diligence: focusing on the financial, commercial, ESG, integrity, development results and legal procedures. With regards to ESG, the questionnaire to the investee is introduced, focusing on E&S, corporate governance and anti-bribery and corruption. The ESG Manager prepares third party analysis if required. From there an investment case is presented to the investment committee. After approval, there is a preliminary discussion of the investment terms.
4. Contract Negotiations: Continued discussions and negotiations regarding investment terms and ESG requirements, for which there may be some action required

¹¹ Information regarding the investment process given during internal presentation from visit to Swedfund offices in December 2017.

by the investee with regards to ESG ahead of Investment approval.

5. Investment approval and disbursement of funds. For board approval the ESG Manager summarises risks and proposes mitigating measures. The ESG Manager also writes an extensive analysis of Environmental and Social considerations (E&S) in a separate memo and creates an “ESGAP”, which is annexed to the contract. This describes specific actions for the company to take to meet its ESG obligations and is actively managed throughout the investment process. The fact that the ESGAP is part of the contract gives Swedfund significant leverage, as failure to comply would breach the terms of the contract, potentially threatening financial support.

The IFI harmonised development results indicators for PSD, as well as other relevant indicators, are selected at the time of investment, and tailored to each investment (Swedfund, 2015). Jobs created and taxes paid to government are tracked for all investments. They also assess the environmental, social and governance (ESG) impacts of investments, knowledge transfer and capacity building (Swedfund, 2013), and financial viability (internal rate of return) (Swedfund, 2015).¹² Ex-ante indicators are then tracked through the investment cycle, and impacts captured ex-post.

Overall, therefore, Swedfund measures what most DFIs measure. However, there is little mention of demonstration effects, or additionality as part of the assessment process, where the 2014 report simply states that ‘[t]here are many positive results in the above analysis but there is a lot we can learn to make us even more effective. Clear goals, systematic follow-up and effective risk management in all pillars are therefore essential’ (Swedfund, 2015, p. 69).

¹² This entails looking at historic and forecasted financial data, as well as regular quarterly reports, company visits, 100-days plans, etc.

3. Approach to evaluation and data availability

This is not the first attempt to assess Swedfund's development impact. Bracking and Ganho (2011) mention a review done by PwC (2009) which found that about half of Swedfund's funds included investments which represented medium to high risk.

In a review of previous Swedfund evaluations, Christian Aid¹³ argues that: 'There has been a lot of debate about whether investments through Swedfund really lead to poverty reduction and sustainable development. The system for follow-up has been quite weak ... and it has been difficult to see clear development results'. The same report found that Swedfund has even been criticised for channelling funds through tax havens. In comments on an earlier draft of this study, Swedfund questioned the validity of Christian Aid's findings, and also pointed to the significant improvements they have made with respect to taxation. The tax-related developments are discussed later in this evaluation.

Sjö and Flygare (2008) found that Swedfund's additionality was unclear, as a majority of investments would have gone ahead anyway. Overall, however, the evaluation found that Swedfund achieved its goals, though there was criticism for not following up with each companies it invests in, thus limiting the knowledge it can draw in terms of development results over the longer-term.

3.1 Approach to evaluation

This evaluation addresses the question: Have the investments undertaken by Swedfund contributed to poverty reduction and, if so, to what extent and how? We define poverty broadly as 'pronounced deprivation of well-being' (World Bank, 2000), and are therefore concerned with the determinants of well-being in a developing country context. As with all DFIs, a particular challenge

¹³ <http://www.christianaid.org.uk/Images/Hidden-profits-tax-report-November-2014.pdf>

is that there is a long (and often indirect) causal chain from investments in companies and funds to the anticipated changes in poverty at a local or household level.

It is therefore necessary to break down this chain into component parts. To achieve this, we proposed a theory-based evaluation (TBE) based on a causal chain that captures how Swedfund's investments might lead (through company growth, employment and taxation) to an impact on poverty. This follows an approach advocated by Jackson (2013) for assessing the impact of investments, with evidence collected used to test assumptions and the extent to which the chain holds true.

For the design of a TBE, we first consider the 'theory' behind the intervention to help explain how Swedfund investments *are expected* to lead to poverty reduction (both directly and through assumed trickle-down effects from overall economic growth). The boxes in Table 4 set out our understanding of the causal change from investment to impact. Each box describes one link in this chain, where an activity in the first column creates certain outputs, indicators for which are described in the second column. The most important assumptions that underpin these relationships are then described in the third column.

The first 'link' in the chain is the investment by Swedfund, which enables economic activity to expand. The key assumption is that this investment is 'additional' – i.e. it would not have happened otherwise, and therefore the resultant activities can be attributed to Swedfund's intervention. In 'link' 2 this increased economic activity leads to direct and indirect effects. Directly, jobs are created and new, better, or more affordable goods & services (G&S) are made available. The key assumptions here are that jobs are sustained over time, and that G&S are available locally. Indirectly, faster rates of local and national economic growth are anticipated, with the rates of growth dependent upon which sectors are invested in. Here the key assumption is that some sectors are more 'transformative' in terms of their growth potential than others. As well as these direct and indirect impacts, Swedfund's investments may also create 'demonstration effects', where examples of successful investments can attract private finance into similar locations and sectors.

Link 3 examines the impact of the direct and indirect effects described. Here we expect to see more and better employment leading to higher incomes and increased well-being. The assumptions are that jobs are sufficiently well paid and fulfilling to have positive well-being effects. The availability of new, better and cheaper G&S should see living standards rise if these are both affordable and useful.

Faster local and national growth will have positive impacts on employment, incomes and G&S, but the strength of these effects will be determined by how ‘inclusive’ (or ‘pro-poor’) the processes of growth are. Finally, this expansion of economic activity should see tax revenues rise (locally and nationally), with the key assumption being that this process is performed efficiently.

In Link 4, higher incomes create a multiplier effect, spurring a further expansion of economic activity, locally and nationally. Here the key assumption is that investments have occurred in transformative sectors creating strong spillover effects. Link 5 describes the process through which higher local and national tax revenues lead to the provision of more/better public services, which is underpinned by the assumption that this happens effectively. In Link 6, the combination of higher incomes and improved public services leads to enhanced well-being, locally and nationally.

In order to have the greatest ultimate impact on well-being, investments should be made in countries, and regions within countries, where need is greatest and so the greatest potential for improvements exist. To return to the original question motivating this research, these are likely to be countries and regions where poverty levels are highest. A final assumption underpinning this link, is that lower poverty and higher well-being lead to improvements in social cohesion, locally and nationally.

Table 4. Theory of Change

Link 1. Swedfund (co)invests

Causal chain	Indicators	Underlying assumptions
Investment	Economic activity expands	Would not have happened otherwise

Link 2. The combination of Swedfund / company investment leads to...

Causal chain	Indicators	Underlying assumptions
Increased economic activity	<i>Direct effects:</i> - New jobs - New/better/cheaper G&S <i>Indirect effects:</i> - Faster local growth - Faster nat. growth	- Jobs and incomes sustainable - G&S produced for local market - Investments in transformative sectors, locally and nationally
A 'demonstration' effect	- Investment in sector increases (crowding-in) - Similar jobs & G&S increase (by other companies)	- Risks in sector not too high to attract other investors (i.e. that investors perception of risks is inaccurately high)

Link 3. The direct and indirect results described above lead to...

Causal chain	Indicators	Underlying assumptions
New jobs are created	- Incomes rise - Well-being increases	- Wages are reasonable - Jobs are fulfilling - Jobs have a disproport. increased effect on household
New, better, cheaper G&S	- Living standards rise	- G&S affordable and useful
Faster local growth	- Equitable growth in local jobs and G&S - Increased local tax revenues	- Localised growth is 'inclusive'. - Local taxes collected efficiently
Faster national growth	- Equitable growth in national jobs and G&S - Increased national tax revenues	- National growth is 'inclusive' - National taxes collected efficiently

Link 4: These local and national effects lead to...

Causal chain	Indicators	Underlying assumptions
Higher local incomes	- Sustainable jobs created - Affordable G&S available	- 'transformative' sectors create strong local spillovers
Higher national incomes	- Sustainable jobs created - Affordable G&S available	- 'transformative' sectors create strong national spillovers

Link 5: Increased tax revenues from higher incomes leads to...

Causal chain	Indicators	Underlying assumptions
Increased provision local public services	- New/improved local public services	- Local resources used effectively
Increased provision of national public services	- New/improved national public services	- National resources used effectively

Link 6: Higher incomes and better provision of public services lead to...

Causal chain	Indicators	Underlying assumptions
Higher local well-being	- Fulfilling jobs created - Desirable G&S available - Improved human development outcomes	- Direct local impacts described improve community cohesion/'social well-being'. - Local potential to improve well-being as high as possible.
Higher national well-being	- Fulfilling jobs created - Desirable G&S available - Improved human development outcomes	- Direct national impacts improve 'national well-being'/cohesion - National potential to improve well-being as high as possible.

In carrying out the study however, the expectation was that the link from economic activity to taxes and public services to well-being - while obviously very important – occurs over too lengthy a time period to be included. Furthermore, the data limitations (see section

below) meant that the analysis of links 3 to 6 was not possible, and the focus has been on a further breakdown of the causal chain from links 1 to 3. These are the more immediate (and more attributable) changes (e.g. job creation, improve ESG practices, etc.), and taken together provide an indication of the likely contribution of Swedfund to poverty impact. One exception is that we were able to assess the final assumption of link 6: i.e. that Swedfund's investments are focused in areas where their potential impact is greatest.

Swedfund invests through equity or loans into portfolio companies, or indirectly into these companies through equity funds. If successful, the effective mobilisation of this investment will lead to growing businesses measured in terms of revenue (an indicator of their overall growth), EBITDA (a measure of the quality of their growth, through profitability), and taxation. A growing company is expected to lead to direct and indirect job creation which has the potential to have an important effect on employees (and their household's) income and well-being.

Alongside these economic indicators, Swedfund undertakes an ESG screening, due diligence and monitoring processes (ESGAP) that aims to improve business practices (such as governance, worker's rights, health and safety, gender, and environmental practices). Some of this will feed through to improved performance of the investment (e.g. management and governance), while others will affect the quality of jobs created (health and safety, training, facilities for women employees, etc.); or have an impact on incomes/well-being (minimum wages, employment of women, etc.), or enhance environmental effects (lower energy use, renewables, safe disposal of waste, etc.). The ESG data (discussed below) provides some evidence of these latter effects, though much of the data is focused on *procedural changes* (e.g. health and safety policy, systems for recording accidents, etc.) rather than *changes in practice* (e.g. lower instances of death or serious injury). Where possible, changes in practice are surfaced, otherwise we assume that a procedural change is a valid proxy of a change in company or employee behaviour, while acknowledging that this will not always be the case.

This provides a structure for the analysis in the following sections, which is organised into ex-ante and ex-post assessments of impacts. The ex-ante assessment tests some of the key assumptions described above, particularly that investments are focused in places and sectors where the potential development impacts are greatest. The ex-post assessment is organised according to the categories described here: (i) financial sustainability (revenue, EBITDA), employment (mainly direct job creation); and (ii) ESG (improved business practices).

3.2 Data availability

Anonymised data was provided by Swedfund. Financial and ESG data were provided separately, because financial data comes through the reporting mechanism between investor and investee, whereas ESG information is the result of an annual environmental and sustainability questionnaire (which will be discussed in greater detail below). The data was anonymised by Swedfund to protect commercially confidential information regarding specific investments.

It should be noted the time needed to obtain data from Swedfund was protracted, with the result that this evaluation took more than twice as long as was scheduled. There are numerous reasons for this: concerns over commercial confidentiality; not having the data in the form needed (in part because of periodic changes from one data collection system to another); and resources constraints – Swedfund is a small DFI with limited staff who are all fully engaged in their activities. The fact that data was not always available in a comparable form, clearly accentuated these resources constraints.

In terms of content, a number of data issues also need to be raised. First, compared with some other DFIs, Swedfund's current and historical portfolio is quite small. This precludes most quantitative techniques, but also means that the impacts we do see can be heavily skewed by single investments. Second, data is only available for a small number of years. This is three years in some cases, but only two in others. This relates to the changes in

indicators and data collection techniques described above: to be valuable, indicators need to be comparable over time. The implementation of a new framework disrupts this, so any data collected under the same approach can be compared.

Third, there is no baseline data available, so it is not possible to say for sure what changes have occurred over the full life of investments, but only what has happened during the two or three year that data is available. This means that very positive (or negative impacts) could have happened at earlier stages of the Swedfund investment, but we have no way of knowing this. Fourth, our analysis is restricted to the data Swedfund collects. While a case can be made for the indicators used, we would have ideally liked access to a larger dataset (though this is not doubt true for all evaluations).

Fifth, while financial data was provided for 2013-15, these were reliant on stakeholder information which was not available evenly across the indicators. For example, in 2014 the response rate for employment was 72 percent but for tax paid it was 31 percent. Sixth, Swedfund's approach to ESG issues is relatively new, restricting the conclusions that can be drawn on its impacts. For example, the ESG questionnaire was not a requirement for investments made prior to Swedfund's "Policy for Sustainable Development" signed in 2010. More detailed data issues are discussed further below.

3.2.1 Financial data

Data was provided by Swedfund for both equity and loans. This covered forty-two separate equity fund investments, most of which are currently live. Data was also provided for 26 active loans. Finally, Swedfund provided limited data, through their annual reports for 27 financial exits from investments. These include investments that were exited early due to a shift in Swedfund's priority regions, or because this was judged to be desirable vis-à-vis maximising development impacts. For investee revenues, EBITDA and Employment we have data for three years: 2013, 2014 and 2015, whereas we have tax data for 2014, 2015 and 2016. As tax revenue is only really meaningful when expressed as a proportion of revenues, this effectively means we only have tax data for two years:

2014 and 2015. Table 5 summarises the data accessed, and the type of information this entailed.

Table 5. Financial data provided by Swedfund

	No. of investments	Type of Data Covered
Equity Funds	42	Status, Vintage, Nature of Business, Financial Accounts Data, Region, Country, Sector, GICs classification, Revenue (2013-2015), EBITDA, Employment (2013-2015), Tax Paid (2014-2015)
Loans	26	Status, Vintage, Nature of Business, Financial Accounts Data, Region, Country, Sector, GICs classification, Revenue (2013-2015), EBITDA, Employment (2013-2015), Tax Paid (2014-2015)
Exit Data	27	Vintage, Year of Exit, Holding Period, Region, Country, Industry Instrument, Invested Amount, Exited Amount, Profit Loss, IRR

3.2.2 Economic, social and governance data

Before entering into an investment, Swedfund will undertake an analysis of environmental, social and governance (ESG) issues. Where problems are identified, conditions may be attached to the investment. In addition, all firms in the portfolio (or equity fund managers) are required to complete an annual ESG survey to monitor performance. The 2014 questionnaire has 132 questions covering a wide variety of issues. Questions also come in different forms. Some refer to outcomes (e.g. carbon emissions), while others refer to processes (e.g. has the firm signed up to ILO guidelines).

Swedfund provided anonymised ESG data for 2014 and 2015, enabling us to link (anonymously) to the financial data for the same investees. We were also allowed access to questionnaires from 2012. While these were in a different format and varied significantly, there was considerable overlap in relation to questions of process and rights of the employee (such as the freedom of association).

4. Assessment of Swedfund's development impact

In this section we assess Swedfund's development impact in three ways. First, impact is assessed on an ex-ante basis in terms of asset allocation. As described in section 2.1, potential development impacts will be influenced by asset allocation in important ways. We therefore review Swedfund's current portfolio on this basis. Second, we present ex post findings of development impact based upon the data provided by Swedfund. As well as presenting numerical results thematically in areas such as financial performance or employment effects, we have identified particularly interesting findings and gone back to Swedfund for an explanation of the context surrounding these investments, and their understanding of the result. While it is interesting to know that a significant number of jobs were created or lost in a particular location, sector and time-period, it is more useful to understand why this happened. To what extent was this the result of trends in the sector or location, for example, or can be attributed to the activities of Swedfund? While time and resources have not allowed us to delve as deeply as we would have liked into these critical issues, we hope that the boxes at the end of each section do provide some insight.

4.1 Ex-ante assessment of asset allocation

Before examining current asset allocation in some detail, we first look at how the portfolio has evolved in recent years in certain key respects.

4.1.1 Historical changes (2009-14)

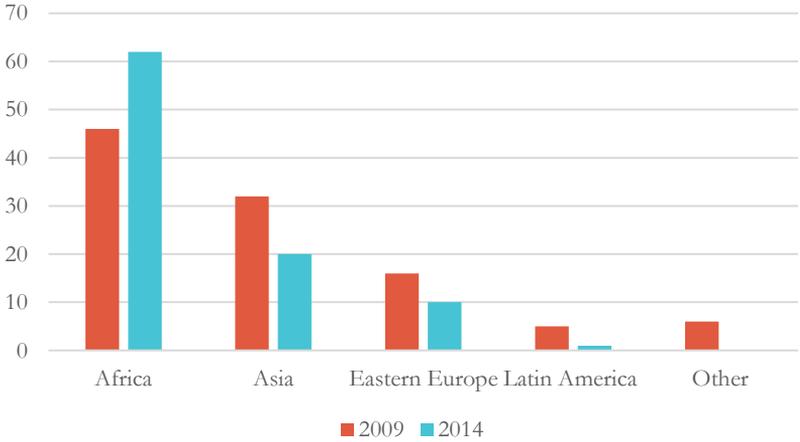
Swedfund's portfolio grew significantly over this period, from a little over SEK 2,500 million in 2009, to 3,500 in 2014. Chart 1 shows how the geographical distribution of the portfolio changed over the same period. As we can see, there has been a marked shift in the

portfolio towards Africa and away from Asia, Eastern Europe and Latin America.

This reflects a strategic decision to focus more in low income countries (LICs) in general, and sub-Saharan Africa in particular, which is reflected in Swedfund’s 2013 integrated report: *“Swedfund has invested significantly in Eastern Europe. Incomes have now risen so much there that Swedfund no longer feels it is so urgent to invest in this region. ...Swedfund’s role of trying to identify and support businesses at an early stage in demanding and risk-filled markets is therefore more useful in the poorer countries of Africa and many parts of Asia”* (Swedfund 2013).

From a development impact perspective, this is positive. As described in section 2.1, potential impacts will be greatest in lower-income countries. Link 6 of the causal chain described in section 3.1 assumes that investments are focused in countries where the potential impact is greatest (i.e. where poverty is more severe). All other things being equal, therefore, we would expect this to positively affect Swedfund’s overall development impact.

Chart 1: Geographical evolution of portfolio



Source: Swedfund (2016)

Looking at the sectoral allocations over the same period, we find the most important sectors in 2009 to be infrastructure, industry and manufacturing, and financial services. By 2014, these remained the three largest sectors, but their relative importance has changed significantly, with finance now the largest sector, followed by infrastructure, and industry and manufacturing.¹⁴

While the continuing focus on infrastructure and manufacturing is positive in terms of potential development impact, it is not clear that the evidence would support a sharp increase in the weighting for the financial sector that has taken place. As discussed above, Swedfund is far from alone amongst DFIs in making this change, but this does not alter this fact.

A final point concerns agriculture. In 2009, just 1.4 percent of investments were made in agriculture. By 2014, however, this had fallen further to 0.4 percent. Again, Swedfund is in line with a number of other DFIs that have made similar changes. Once again, however, this does not seem to be justifiable in terms of potential development impact, regardless of the difficulties of investing in the sector.

We conclude this historical comparison by looking at the weight of different financial instruments in the portfolio between 2009 and 2014, where the main change has been rapid growth in the weight of loans. ‘Guarantees & options’, which figured slightly in 2009, had disappeared by 2014 (Swedfund, 2015). From a potential development impact perspective, an increase in the weighting of loans relative to equities has implications. As will be explored later in this paper, equity investments create scope to influence the behaviour of firms – thereby potentially enhancing development impacts – in ways that loans do not. Increasing the weight of loans may reduce the potential to create impact.

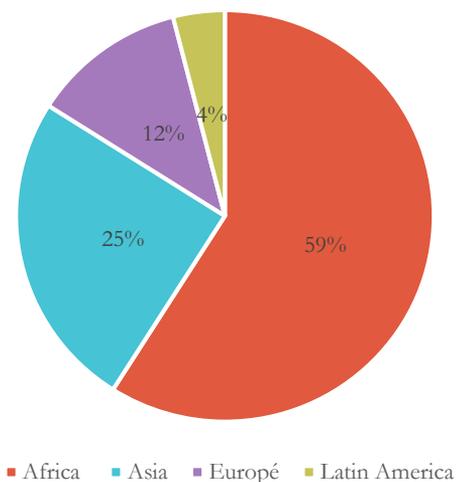
¹⁴ Swedfund does not provide a comparative historical breakdown of asset allocation for its full portfolio. These figures are therefore taken from the EDFI: Source: EDFI (<http://www.edfi.be/component/downloads/downloads/129.html>).

Given this risk, it is important to note that direct investment in firms' equity by Swedfund increased in importance over the period in question, while investment through equity funds fell significantly (ibid). These latter types of investment do not provide the opportunities to influence behaviour (e.g. there are no seats on the board), which avoids the risks associated with a shift away from equity investments.

4.1.2 Current asset allocation

As of the end of 2016, Swedfund's total outstanding investments were around SEK 3,000 million. Around 47 percent were loans, and 53 percent equity, the same as 2014. The first point, therefore, is that the increasing weight of loans in the portfolio does not appear to have continued.

Chart 2: Regional distribution of portfolio 2016



Source: Swedfund (internal) and authors' calculations

Chart 2 show the regional breakdown for the full portfolio (loans plus equity) at end 2016. Africa is by far the largest region, with 59 percent of total assets, much the same as in 2014, though it should

be noted that the 2014 figures are from Swedfund’s own reports, while Chart 2 are our own estimates based on data received. There may be some differences in measurement approaches, but no particular increase in weighting can be observed.

Table 6 compares country exposures for loans and equities. The two largest countries are Kenya and India in both cases, with the equity exposure to Kenya being particularly large.

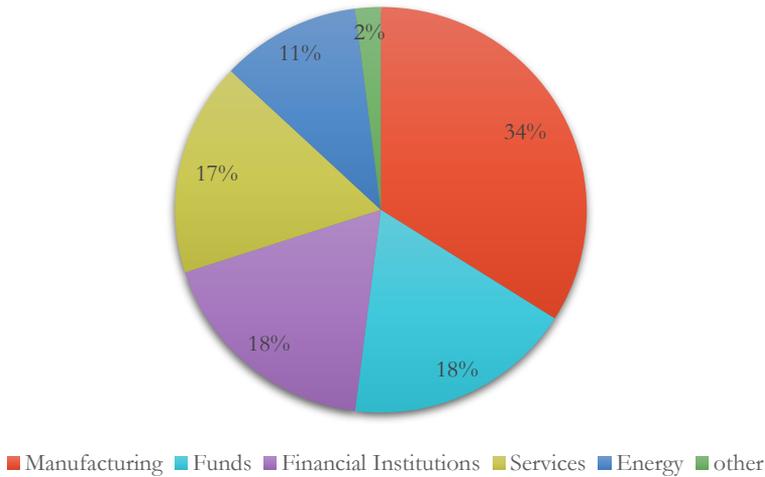
Table 6. Country-level exposures 2016

Loans	(%)	Equities	(%)
Kenya	6.82	Kenya	15.33
India	13.04	India	11.90
Georgia	5.87	China	6.92
Tanzania	2.87	Serbia	5.97
Global	7.57	Global	5.00
Africa	25.53	Africa	39.55

Note: Per cent of loan or equity portfolios by value. Source: Swedfund (internal) & own calculations

Reflecting the strategic focus on Africa, the largest categories of investment in both cases are to firms (or equity funds) with a Pan-African focus. For equities, this is almost 40 percent of the portfolio. Some anomalies can also be observed, such as the heavy loan exposure to Georgia, and equity investment in Serbia. In both cases, these represent almost 6 percent of investments of this form. Of the four largest countries for both equities and loans, only one – Tanzania – is a low-income country. Of the others, India and Kenya are classified as lower-middle income countries, while China, Georgia and Serbia are upper-middle income countries. These are no doubt legacy investments (Swedfund invest for 7-9 years), and Kenya was classified as a low-income country until relatively recently. It is also likely that investments in particular countries reflect historical preferences of the Swedish government – the Georgia weighting would be the result of previous instructions for Swedfund to increase its focus in the former Soviet Union, for example.

Chart 3: Sectoral distribution of portfolio 2016



Source: Swedfund (internal) and authors' calculations

Chart 3 gives the sector breakdown for the full portfolio by value. The previous sector allocations are not directly comparable, as this was compiled by the EDFI, and the classification of services is different. The point about the rapid growth in finance sector investment still holds, however, as this comparison was done using the same approach. As of end 2016, the largest sector is manufacturing with 34 percent of total assets. Financial institutions and fund investments each account for around 18 percent, and services for 17 percent. Energy investments account for 11 percent of investments.

Another change that does not appear in these figures is the fact that Swedfund has doubled its weighting to renewable energy investments, which is in line with its evolving mandate and funding arrangements. As described in section 2.2.1, Swedfund received SEK 400 million from the Swedish government in 2016 to promote “a switch to renewable energy” (Swedfund, 2016).

The significant investment in manufacturing is very positive from a potential development impact perspective. On the other hand, the 18 percent weighting to financial institutions, seems

higher than its potential impact would justify. Table 7 breaks down these allocations by region.

Table 7. Sector breakdown by region

	Energy	Financial instit.	Fund	Manu-fact.	Other	Services
Africa	3.26%	17.74%	18.11%	42.56%	3.73%	14.59%
Asia	34.19%	5.53%	23.89%	18.19%	0.00%	18.20%
Europe	3.59%	51.04%	10.48%	34.90%	0.00%	0.00%
Lat.Am.	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%

Note: Per cent in region by sector. Source: Swedfund (internal) and authors' calculations

While all Latin American investments are in services, and those in Europe are weighted towards financial institutions, outstanding investments in Asia and Africa are more diversified. The main difference between the two regions is the greater importance of energy and fund investments in Asia, which is balanced by the greater weighting for financial institutions and manufacturing in Africa.

In terms of potential development impact, the very high manufacturing weighting in Africa is particularly positive. As well as being a 'transformative' sector (link 2 in causal chain), these investments are more likely to be in lower-income countries (link 6 in causal chain). The high weighting to finance in Africa is less clearly positive in this regard.

Table 8 compares sector distributions by value for loans and equities. Both have significant exposure to the manufacturing sector, though this is much higher for loans than equities (37.85 and 30.17 percent respectively). For loans, the next largest sector is finance (26.56), followed by energy, and then services.

The largest category for equities is investments through equity funds, which accounts for approximately a third of the equities portfolio. After manufacturing the next largest sector is services, followed by finance with 11.9 percent of investments.

Table 8. Sector distribution by instrument 2016

Loans	(%)	Equities	(%)
Manufacturing	37.85	Fund	33.74
Finance	26.56	Manufacturing	30.17
Energy	18.63	Services	21.59
Services	12.81	Finance	10.04
Other	4.15	Other	0.49
		Energy	3.98

Source: Swedfund (internal) and authors' calculations

To summarise, the shift in country focus towards lower-income countries in Africa is positive in terms of potential development impact (link 6 in causal chain). There is scope to go further in this regard, though the long-term nature of Swedfund's investments, and the influence of historical directives received on country focus need to be taken into account in this regard. High weighting to manufacturing and infrastructure¹⁵ is positive as these are relatively 'transformative sectors'. In contrast, the fact that agriculture has been eliminated entirely from the portfolio is surprising, as the literature suggests that agriculture is the most transformative sector in lower-income countries. Finally, the increased weighting to finance is difficult to justify in terms of ex-ante potential, not least as assessing impact when investments are made through financial intermediaries is problematic.

¹⁵ See footnote 16. In addition, from analysis of the GICs classifications we find that 8.42% of the portfolio is in hotels, integrated telecommunications, and ports. Additionally, we note that it is likely that investments in infrastructure are greater as they may feature as part of the indirect investment funds, where there is less visibility in the available data to see on sector.

5. Ex-post impact assessment

In this section we report impact findings in two areas: financial and economic; and environmental, social and governance (ESG). In each case, we first present results from the whole portfolio (loans + equities), before reporting on each separately. As described above, these results are augmented by text boxes at the end of each section, which contain Swedfund's explanations for some of the most interesting findings that are presented.

5.1 Financial and economic impacts

Swedfund seeks to make positive economic impacts in the companies in which it invests. Here we look at three elements of this: financial sustainability; employment; and tax paid.

5.1.1 Financial sustainability

In this section we present findings on two aspects of financial sustainability: revenues generated; and EBITDA.¹⁶ The first is a measure of economic activity (and pricing power), while the second is a comparative measure of firm performance, which takes account of costs as well as revenues.

Table 9 describes the evolution of revenues from Swedfund's firms over the period for which we have data. This includes both loans and equities. As we can see, the number of respondents falls in each year, so the total revenues figure is not informative. The minimum figure shows a significant loss of more than SEK 80 million for one firm in 2014. Of these summary figures, the average figure does provide some information, where we see a significant increase in average annual revenues from 2013 to 2014. This falls back slightly in 2015, but remains 63 percent higher than the start of the period.

¹⁶ Earnings before interest, taxation, depreciation or amortization.

Table 9. Total portfolio revenues summary (SEK millions)

	2013	2014	2015
Responses	52	48	38
Total	15158.02	24761.76	18135.54
Average	291.50	515.87	477.25
Min	-9.28	-81.17	-1.88
Max	6572.13	7980.45	3404.44
Standard deviation	946.53	1574.66	879.10

Source: Swedfund (internal) and authors' calculations

Table 10 provides the same information for the equity portfolio only. As we can see, the number of non-responses increases significantly over the period. After staying relatively stable in the first two years, the standard deviation of revenues falls sharply in 2015, due to a significant fall in the maximum revenues. This is also reflected in the average figures, which stay broadly constant for 2013-14, before halving in 2015. A closer look at the underlying figures, shows that these large shifts are driven by a very small number of equity investments, underlying the risks that Swedfund faces. An important part of this is that Swedfund is a relatively small DFI, which makes it difficult to diversify sufficiently to deal with idiosyncratic risks.

Table 10. Equity portfolio: revenue summary (SEK millions)

	2013	2014	2015
Responses	33	29	23
No responses	9	13	19
Total	9956.90	10601.66	4080.23
Average	301.72	365.57	177.40
Min	-9.28	-81.17	-1.88
Max	6572.13	7530.46	1571.45
SD	1155.25	1407.71	438.09

Source: Swedfund (internal) and authors' calculations

Table 11. Equity portfolio: net revenue impacts over three periods (SEK millions)

	Change 13-14	Change 14-15	Change 13-15
Responses	29	22	22
No response	13	20	20
Total change	882.02	-5730.63	-4948.12
Average change	30.41	-260.48	-224.91
Max	958.33	84.49	92.59
Min	-253.22	-5997.73	-5039.41
SD	186.43	1281.64	1077.35

Source: Swedfund (internal) and authors' calculations

Table 11 highlights this volatility well, where a huge drop in total and average revenues in 2014 is driven by very large losses in a single equity investment, as shown by the minimum figure in the middle period. It is noteworthy that this includes results for equity funds and portfolio equity companies, the latter being those which Swedfund invests in directly. Disaggregating these types of investments, we find all portfolio equity firms reporting positive revenues over the period (77% over 2013-2015), highlighting the fact that losses are concentrated in equity fund investments.

Table 12. Loan portfolio: revenue summary (SEK millions)

	2013	2014	2015
Responses	19	19	15
Total	5201.12	14160.10	14055.32
Average	273.74	745.27	937.02
Max	1493.87	7980.45	3404.44
Min	2.86	0.52	2.85
Standard Deviation	406.59	1816.56	1169.05

Source: Swedfund (internal) and authors' calculations

Table 12 turns to the loan portfolio. For revenues, we see a considerably better performance than with equities, with 175

percent growth in average revenues in 2014, and a 25 percent increase in 2015. The 2015 figure compares favourably with a halving of equity investment revenues at the same time.

Table 13. Loan portfolio: net revenue (SEK millions)

	2013-2014	2014-2015	2013-2015
Responses (for both years)	18	13	13
Total Change	1212.50	2721.46	3617.05
Net Average Change	67.36	209.34	278.23
Min	-21.65	1.49	-9.71
Max	334.28	1156.69	1444.15
SD	111.71	405.64	484.07
Percentage Reduced Revenue	27.78%	0%	15.38%
Percentage Increase Revenue	72.22%	100.00%	84.62%
Total change as % of base year	24.41%	49.42%	78.46%

Source: Swedfund (internal) and authors' calculations

Table 13 confirms these results: 2014 saw 72 percent of investees report rising revenues, rising to 100 percent in the following year. The average reported increase also rose threefold between the periods. Total reported revenues increased by almost 70 percent from 2013 to 2015.

To summarise, therefore, Swedfund saw an increase in total and average revenues for firms across the portfolio over the period in question, which was largely driven by the loan portfolio. Losses were heavily focused in a small number of equity fund investments.

Table 14. Total portfolio EBITDA (SEK millions)

	2013	2014	2015
Responses	55	53	44
Total	1871.02	3699.77	3881.49
Average	34.02	69.81	88.22
Min	-165.30	-183.73	-485.95
Max	548.02	1191.43	1118.31
SD	118.64	216.85	283.99

Source: Swedfund (internal) and authors' calculations

Table 14 provides summary figures for EBITDA. 2014 saw average EBITDA increase by 105 percent from the previous year, while growth in 2015 was 26.4 percent. Variability in the portfolio also increased, with both minimum and maximum reported EBITDA more than doubling over the period, and standard deviation increasing sharply.

Table 15. Equity portfolio: EBITDA summary

	2013	2014	2015
Responses	36	34	27
No response	6	8	15
Total	735.00	981.15	-664.80
Average	20.42	28.86	-24.62
Min	-165.30	-183.73	-485.95
Max	404.03	471.61	114.72
SD	104.05	131.09	103.95

Source: Swedfund (internal) and authors' calculations

Table 15 looks at EBITDA results for equity investments. As with total revenues we see a deterioration in performance towards the end of the period. The very large minimum performance (i.e. a loss of SEK 486 million in 2015) is clearly an important part of this.

Table 16. Equity portfolio: net EBITDA change (SEK millions)

	2013-14	2014-15	2013-15
No. Companies Providing EBITDA Data for both years*	34	26	26
Net Average Change	6.65	-58.20	-51.40
Total	225.96	-1513.31	-1336.35
Min	-230.96	-930.41	-889.98
Max	489.36	146.58	138.08
Standard Deviation	100.49	207.01	190.51
Percentage Loss EBITDA	50.00%	38.46%	53.85%
Percentage Increase EBITDA	50.00%	61.54%	46.15%
Total change as % of base year	29.92%	-168.32%	-185.07%

Source: Swedfund (internal) and authors' calculations. *Only EBIT data was provided in 6, 5, and 11 cases for 2013, 2014, and 2015 respectively). Source: Swedfund (internal) and authors' calculations

Table 16 shows that it was net losses in 2014-5 that drove the underperformance, with one equity investment in particular (-SEK 930 million) accounting for two thirds of the total losses. In the first period, half of firms reported losses and half gains. In the second period this actually improved to 40/60. That nearly 60 percent of firms were reporting gains from 2014-15, but the total loss was so large, highlights the fact that losses were concentrated in the larger equity investments.

Table 17. Loan portfolio: EBITDA summary

	2013	2014	2015
Count	19	19	17
Sum	1136.02	2718.61	4546.29
Average	59.79	143.08	267.43
Max	548.02	1191.43	1118.31
Min	-36.55	-46.50	-40.29
Standard Deviation	141.78	309.03	378.92

Source: Swedfund (internal) and authors' calculations

As with revenues, the EBITDA performance of companies from the loan portfolio is significantly better than for equity investments. The average figure for 2014 was 139 percent up from the previous year, while the 2015 figure shows annual growth of 87 percent (Table 17). This is slightly better than the revenue figures, suggesting that investee firms were improving their productivity as well as sales.

To summarise, 2013-15 saw revenues grow and EBITDA improve for Swedfund's investee companies, both in total and on average. This growth, however, was driven by the loan portfolio, and to a lesser extent, equity investments in individual firms. Equity investment through funds, in contrast, performed poorly over the same period, with most losses concentrated in a few large investments.

This highlights the risks that a relatively small DFI such as Swedfund faces. Given its size, there are limits to how much risk can be diversified away. As Swedfund is increasingly focusing on lower-income countries where risks are likely to be higher, this problem is likely to become greater. Seeking to achieve greater impact by investing in places where needs are greatest increases the risk of losses.

Box 1: Behind the data: Swedfund's approach to Financial Sustainability

Swedfund approaches the financial sustainability of the firms in which it invests in two ways. First, it seeks to invest in companies that are, or have the potential to be, financially sustainable. Second, it aims to improve the financial sustainability of firms through engagement, either as a Board member for equity investments, or as an active lender. In order to understand better how this works in practice, we sought clarifications on three interesting findings emerging from the data on financial sustainability. The questions, and summaries of Swedfund's responses to them, are given below.

1.From a financial sustainability perspective, what are the potential advantages of multiple investments in the same sector or region (e.g. health in Kenya)?'

"For country and sector focus, we thoroughly analyse both our mission and the directives from our owners before deciding in which countries and sectors we believe we can achieve the most. By making multiple investments in the same sector/region we also enable the creation of investment platforms/portfolios. This not only strengthens the potential for value creation (e.g., knowledge transfers) but also increases our potential exit options...Our strategy from 2014-2017 has been to place a stronger focus on a smaller number of countries and also to increase our sector focus. We're a small organization (35 people) and concentrating on certain countries/markets/sectors is a necessity to ensure that we are able to apply an holistic approach – social impact, sustainability and financial viability – before, during and when exiting an investment.

Increasing effectiveness and knowledge is naturally an iterative process – we learn constantly from our investments and experiences. It is worthwhile keeping in mind, that we have an average holding period of each investee of 9-11 years. Hence, while our insights, goals and targets may change rapidly, it is easier to enact change in newer investments than in those made a long time ago. Our mandate stipulates that we engage in some of the poorest, but as a consequence also some of the most difficult, countries and regions in the world".

"Therefore, while we on average make significant strides in combatting and reducing poverty, there might be individual cases which do not evolve and develop as we had intended and wished from the start."

2. What is the explanation for the large revenue losses concentrated in equity fund(s) during 2014?

“Revenue losses of investees in our funds (rather than the fund itself) may have been likely during 2014-2015 because of market factors. For instance, one fund has broad exposure towards the natural resources sector and therefore revenues (and the valuation) of the fund decreased as commodities prices fell during this period. In another case, Swedfund took over an old fund, and some of the portfolio companies were sold whereas others were transferred to Swedfund – the last company in 2015. The fund was not liquidated and equity was returned to Swedfund in 2017.”

3. Why did loan portfolio revenue grow so rapidly between 2013-15?

“Swedfund loan portfolio revenue has risen for two reasons. 1) When providing a loan and earmarking it to a specific group (SME’s, lending to women etc), Swedfund’s investment makes capital accessible to companies in which Swedfund would not have been able to invest, either directly or through equity. These groups are in great need of capital and are essential for achieving inclusive growth. 2) It has been a necessity for Swedfund to decrease volatility and generate more predictable returns from the portfolio and more continuous cash flows to achieve long term cover of annual operational expenses. Furthermore, as mandated by Swedfund’s shareholder (the Swedish Government) it is essential to achieve both societal impact and financial return, in a sustainable manner. The increased allocation to loans is aligned with this ambition.”

Source: Interview with Swedfund staff

5.1.2 Employment

Swedfund, like a number of other DFIs such as CDC, places great emphasis on job creation. In this section, we present only direct jobs impacts – i.e. jobs created or lost by the companies that Swedfund invests in. This is not the only employment effect, however, as direct jobs can lead to indirect job creation in the supply chain, and induced job creation across the economy through faster growth. If the aim is to maximise total employment impact, the sum of these three effects is the relevant statistic.

As described in section 2.1.4, CDC estimates these total impacts for potential investments and uses these estimates to identify sectors with the most employment-creating potential. We also argued that these results are both location and sector specific, making it

questionable to generalise from either one sector to another in the same country, or from the same sector in one country to another. It is outside the scope of these study to accurately estimate these indirect and induced employment effects for each sector and country that Swedfund invests in. As a result, we report only direct jobs impacts here.

Table 18. Total portfolio employment summary

	2013	2014	2015
Responses	40	49	43
Total	86933	102286	108623
Average	2173.33	2087.47	2526.12
Min	1	1	8
Max	21418	21418	26571
SD	4842.18	4411.31	5494.90

Source: Swedfund (internal) and authors’ calculations

Table 18 describes total employment across the Swedfund portfolio, combining loans and equity. As we see, total employment increases over the period, but so do the number of reporting firms. The average figure falls slightly in 2014, before increasing slightly more in 2015. Overall, however, there is little change to be observed at the portfolio level in terms of employment.

Turning to equity, the summary figures tell the same story, with a slight fall in average employment in 2014 followed by a slightly larger rise the following year.

Table 19. Equity portfolio net employment

	2013-2014	2014-2015	2013-2015
No. companies providing data for both years	24	24	19
Net average change	-56.54	-103.08	-210.37
Total change across Reporting Companies	-1357	-2474	-3997
Total change as % of reported employment (in base year)	-1.68%	-3.39%	-6.30%
Min	-1914	-4200	-4200
Max	2379	1220	3599
SD	676.82	964.42	1384.78
Percentage reporting loss employment	41.67%	37.50%	57.89%
Percentage static	25.00%	25.00%	0.00%
Percentage increase employment	33.33%	37.50%	42.11%

Source: Swedfund (internal) and authors' calculations

Table 19 focuses on net employment impacts for companies reporting in each year in the period. Here the picture is less positive, with a net loss of 6.3% of employment across the equity portfolio from 2013 to 2015. Neither is it the case that these losses are concentrated in just a few firms, as at least half of firms report losses of employment in each period, rising to 57.9 percent over the full three years. Whereas revenue impacts are driven by losses in a few, large investments, these employment impacts appear more systematic. Employment creation is a key part of the causal chain described in section 3.1. It is also central to the rationale for private sector development in general, and DFI investment in particular. It may be that the negative findings are influenced by broader trends such as negative movements in the business cycle, but we can also say that there is no evidence of positive direct job creation resulting from Swedfund's investments across the portfolio as a whole.

Table 20. Equity portfolio: net employment by equity mode

	Fund – Active			Portfolio Company			Co-financing Facility		
	13-14	14-15	13-15	13-14	14-15	13-15	13-14	14-15	13-15
Reporting years									
No. companies providing data both years	8	8	6	14	15	12	2	1	1
Net Average Change	-10.4	-415	-567	-91	56.1	-49.8	0	5	5
Total Change Across Reporting Companies	-83	-3321	-3404	-1274	842	-598	0	5	5
Total change as % of reported employment (in base year)	-0.12	-5.32	-6.11	-12.7	8.06	-7.83			
Percentage reporting loss	50.0	25.0	66.6	42.9	46.6	58.3	0	0	0
Percentage reporting increase	12.5	37.5	33.3	50	33.3	41.6	0	100	100
Min	-1914	-4200	-4200	-916	-175	-357	0	5	5
Max	2379	1220	3599	168	954	141	0	5	5

Source: Swedfund (internal) and authors' calculations

Table 20 breaks down net employment effects by mode of equity. This enables us to see that employment losses are greatest for equity funds, with a very large loss of more than 4,000 jobs reported in 2014-5 for one fund (see minimum figure for that year). We also see significant job losses in portfolio equity firms, however. While funds and individual firms have examples of significant gains, total and net average changes for the period are negative for both, and the proportion reporting losses is more than half in both cases (66.6 and 58.3 percent respectively).

Table 21. Equity portfolio: net employment impacts by vintage

Investment vintage	2000-2005			2006-2010			2011-2015		
Reporting years	13/14	14/15	13/15	13/14	14/15	13/15	13/14	14/15	13/15
No. companies providing employment data (both years)	7	6	5	14	10	11	3	8	3
Total change as a proportion of employment (base year)	-6.31	-10.2	-14.6	5.92	7.26	20.4	13.4	10.4	22.9
Percentage reporting losses	57.1	33.3	80.0	42.9	50.0	63.6	0	25	0
Min	-1914	-4200	-4200	-326	-175	-357	0	-33	5
Max	168	556	54	2379	1220	3599	8	954	141
SD	750	1757	1727	654	397	1112	4.35	336.21	77.7

Source: Swedfund (internal) and authors' calculations

Table 21 breaks the employment figures down by vintage of the investment. This is organised into three groups. Investments made between 2000-5, 2006-10, and 2011-15. As highlighted in bold, the greatest losses are found for the older investments, which lost almost 15 percent of their workforce from 2013 to 2015. In contrast, investments made in the most recent period, saw substantial increases in employment over the full period (22.9 percent), and double figure growth in each sub-period.¹⁷

¹⁷ Note sub sample of three investments – one of which started with two jobs in 2013 and increased to 143, hence surprisingly high figures.

Table 22. Equity portfolio: regional distribution of employment impacts

	Africa			Asia		
Reporting years	13-14	14-15	13-15	13-14	14-15	13-15
Companies providing data for both years	12	13	9	4	5	4
Net average change	-48.75	130.7	229.2	-119	-830	-1408
Total change across reporting companies	-585	1699	2063	-535	-4152	-5634
Total change as a proportion of employment (in base year)	-1.92	4.77	7.43	-1.32	-14.5	-21.1
Percentage reporting losses	33.33	23.08	44.44	50.00	60.00	75.00
Min	-1914	-175	-1358	-534	-4200	-4200
Max	2379	1220	3599	0	954	200
SD	960.9	368.2	1341.6	266.8	2021	2033

Source: Swedfund (internal) and authors’ calculations

Table 22 breaks down the equity portfolio regionally. Here we see (again in bold) that most job losses are in Asian investments, which saw a 21 percent fall in employment over the period, compared with a net gain of 7 percent in Africa. As Swedfund has switched its focus towards Africa relative to other regions, this is an encouraging finding, not least because the development impact of job creation may be greater in lower-income countries (i.e. link 6 from causal chain in section 3.1).

Table 23. Equity portfolio: sector distribution of net employment effects

	Services			Fund			Manufacturing		
	2013-14	2014-15	2013-15	2013-15	2014-15	2013-15	2013-15	2014-15	2013-15
Reporting years									
Companies providing data	5	7	3	7	7	5	6	5	6
Net Average Change	37	131	8	-11.7	-503	-720	-164	-37	-42
Total change	185	919	24	-82	-3522	-3604	-982	-186	-254
Total change as a proportion of employment	13.9	23.7	5.3	-0.12	-5.78	-6.64	-19.4	-5.48	-7.21
Percentage reporting losses	0.00	42.86	33.33	42.86	28.57	80.00	66.67	60.00	66.67
Min	0	-33	-11	-1914	-4200	-4200	-916	-175	-181
Max	168	954	23	2379	1220	3599	35	19	54
SD	73.3	363	17.3	1265	1773	2851	370	78.3	83.9

Source: Swedfund (internal) and authors' calculations

Table 23 looks at employment effects by sector for the equity portfolio. As highlighted, we see losses concentrated in manufacturing and through equity funds, where 7.2 and 6.6 percent of jobs are lost respectively. In contrast, equity investments in services saw employment rise by 5 percent. To summarise, from 2013 to 2015, Swedfund's equity portfolio saw a net loss of jobs. These were disproportionately concentrated in older investments, Asian investments, the manufacturing sector, and investments made through equity funds. Younger, direct, investments – particularly those in Africa – were more likely to have seen net job creation over the period considered.

Table 24. Loan portfolio: employment summary

	2013	2014	2015
Responses	15	18	15
Total	5986	12188	11296
Average	399.06	677.11	753.06
Max	1600	4900	5117
Min	4	13	8
SD	441.35	1140.72	1336.64
Median	320	314	271

Source: Swedfund (internal) and authors' calculations

Table 24 gives the summary employment figures for the loan portfolio. Here total employment has almost doubled. This is reflected in the average figures, where total employment again almost doubled.

Table 25. Loan portfolio: net employment

	2013-14	2014-15	2013-15
Companies providing data (both years)	15	14	11
Total change	-276	637	472
Net average change	-18.4	45.5	42.9
Total change as a proportion of employment (in base year)	-4.6	5.98	13.22
Percentage reporting losses	26.67	57.14	45.45
Min	-916	-175	-181
Max	461	600	501
SD	281.79	180.55	193.76

Source: Swedfund (internal) and authors' calculations

Looking at net employment effects in table 25, we see solid growth over the full loan portfolio between 2013 and 2015 (with a 13 percent increase relative to the base year). This seems to be on the strength of the 2014/2015 period where despite the majority of the loans reporting losses in employment, one investee reported jobs growth of 600 individuals.

Table 26. Loan portfolio: employment impacts by loan status

	Active			Exited		
	13-14	14-15	13-15	13-14	14-15	13-15
Reporting years						
Companies providing data (both years)	12	13	10	3	1	1
Net Average Change	-12	51.30	65.1	-44	-30	-179
Total Change Across Reporting Companies	-144	667	651	-132	-30	-179
Total change as % of base year employment	-2.62	6.45	20.87	-26.51	-9.97	-39.78
Percentage reporting losses	25.0	53.9	40.0	33.33	100	100
Min	-916	-175	-181	-149	-30	-179
Max	461	600	501	17	-30	-179
SD	315.2	186.6	188.9	91.33	N.A	N.A

Source: Swedfund (internal) and authors' calculations

Table 26 breaks down employment impacts by status of loan – i.e. active or exited.¹⁸ As we can see, losses are heavily concentrated in exited investments, in particular, one company which shed almost 40 percent of jobs from 2013 to 2015. Over the same period, in contrast, firms with active Swedfund loans saw an increase in employment of more than 20 percent.

¹⁸ These refer to the current state of the loan as of October 2016. While the loan may be exited, the company may still be on the Swedfund's books until the end of the financial year, hence why it is a relatively minor part of the portfolio. Another possible reason for the company still being on the current portfolio is that contract negotiations may be ongoing for additional financing.

For the rest of the loan portfolio, we find positive employment effects are somewhat stronger for more recent loans. Regionally, losses are more likely in Asia than Africa. No sector employment effects were found in the loan portfolio.

To summarise, therefore, the overall portfolio shows little employment impacts, positive or negative. This masks considerable variation, however. Swedfund's equity portfolio saw a net loss of jobs, which were disproportionately concentrated in older investments, Asian investments, the manufacturing sector, and investments made through equity funds. Younger, direct, investments – particularly those in Africa – were more likely to have seen net job creation over the period considered. The loan portfolio, in contrast, saw net job creation, particularly in more recent loans, and those located in Africa.

Box 2: Behind the data: understanding how Swedfund affects employment

Helping to create good jobs is a key pillar of Swedfund's strategy. Understanding why significant variation in employment take place is therefore important. Looking at the employment data, four questions emerged. The questions, and Swedfund's responses to them, are given below.

1. Why is there such large variation in employment levels from equity funds, with differences between years running into the thousands (Table 21)?

"Our ambition with fund investments is to reach areas, types of investees (such as SMEs), sectors (renewable energy), countries and themes (women led enterprises) which otherwise would not have been possible for us to reach through direct investments given our experience, skill set, presence, and other networks...Given the importance of fund investments in our overall portfolio and ability to enact change and reduce poverty, our approach when evaluating funds has been significantly improved over the past 3-4 years. This covers among other topics a fund's track record, its concentration risk, management of ESG issues, tax questions, organisational structure and other areas – which on average should strengthen impact and financial viability of the funds and of Swedfund in the future."

"Variation between funds can be quite significant. For instance, one fund experienced an average employment growth of 21% during the 2013-15 period. In 2014-2015 period 7 of 8 portfolio investments (of that fund) reported increases in employment. This was on the back of strong

developments in each of the companies in general, and a fund manager essentially doing a good job. This can be compared to another fund, with nine companies, out of those, 5 expanded, while 4 experienced loss of employment. One of the companies that lost employees accounted for 41% of the total number of employees in the fund in 2013, so overall performance was negative.”

2. Why do older investments suffer greater employment losses than newer ones (Table 20)?

“The commodities downturn of 2014-2015 affected some of our funds more than others. One such investment was a fund which had a particularly large tilt towards the resources and mining sector, and other investees also had similar albeit not so pronounced exposure to that same sector.”

3. For economic sectors, why do we see losses in manufacturing and gains in the service industries (Table 23)?

“We have seen a loss of employment in one of our larger manufacturing investments, where the company is currently under distress, and the number of employees has been reduced accordingly. We must stress that it is only voluntary leavers to date.”

4. Why are losses greater for exited loans compared to current loans (Table 26)?

“We have seen exited loans both increase and shrink the number of employees. Generally, in good times a business expands and with that its sales, profits, operations in general and of course also its number of employees...For instance, one investment (which Swedfund has now exited) went through difficult times where it was not able to service the interest payment to Swedfund. This poor performance is directly linked to their employment loss. On the other side, we have seen loans where revenues increased with an average IRR of 22% from 2010-2015. As a result, the number of employees increased significantly.”

Source: Interview with Swedfund staff

5.1.3 Tax

As part of Swedfund’s ‘three pillars’, their impact on society does not just consider employment creation, but also aims to ensure that investee companies pay the correct amount of tax. Swedfund thus collects data, both in its due diligence (as part of screening) and its annual monitoring and reporting processes, on taxes paid. Swedfund does not invest in firms that have structures designed to avoid tax, and has an ongoing dialogue with investees to encourage a responsible approach.

How successful DFIs, including Swedfund, are in these efforts, is impossible to say with any certainty. As described in Box 3, there are numerous reasons why taxes paid vary from year to year, which may have little to do with a company’s willingness to pay taxes, and nothing to do with DFIs’ efforts. What we can expect, however, is that the worst examples of bad practice do not occur within Swedfund’s companies. At a minimum this means no tax evasion (illegal), and it would also be hoped that the most egregious examples of complex tax avoidance (legal) are eliminated.

As noted by Senior ESG manager, Karin Askelöf, “In a perfect world we would not only disclose the corporate tax paid by portfolio companies but also other taxes paid by the companies. That information is not easily accessible and at present we cannot verify it. However, through our country-by-country reporting of tax we have come further than many others.” (Swedfund, 2016 pp. 30). While not perfect,¹⁹ this is an important step, which should be

¹⁹ It is assumed here that the country where the company operates is the same as its tax domicile. This is quite a strong assumption as information on any tax haven’s being used by investees is not currently available. In this regard, Brot für Alle (2011) noted the direct equity investment of Swedfund in Addax Bioenergy (APRODEV, 2013), a Sierra Leonean subsidiary of the company Addax & Oryx Group (AOG), domiciled in the tax haven of the British Virgin Islands (BVI). As Swedfund does not report taxes generated to countries on a company-by-company basis (it does so at a country level), it is not possible to know where Addax Bioenergy has paid its taxes, and there was clearly scope for “transfer pricing”, moving their profits to a holding company based in a tax haven, and thus paying little to no taxes.

welcomed. International companies generally present tax paid on a consolidated, global basis. This makes it impossible to know whether the correct amount of tax, relative to profits made, have been paid in different countries. Swedfund cannot do this alone of course, but it is a sign of commitment to this issue that it is making genuine efforts.

Table 27 notes taxes paid for 2014, 2015, 2016 and highlights the problem of access to tax information: across the whole portfolio (equity and loans) less than half of the companies responded to questions on taxes paid in Swedfund's annual survey.²⁰ The best response rates came from Europe, whereas Asia had the weakest response. The role of equity funds, which provide 61 percent of the reported tax revenue for 2014, is important. As funds are more likely to invest in larger enterprises listed on stock exchanges, tax figures can be distorted. Due to small sample size, however, we have included funds' tax results in nominal terms alongside smaller investments, though excluded them from the ratios. When interpreting the figures below, it is important to bear this in mind.

While noting the rapid rise in total tax receipts between 2014-2016, with a sharp fall in 2015, we see a wide variation in the average contribution to taxes, both within years and inter-temporally as tax receipts vary significantly. As described in the section on data limitations, we do not have corresponding revenue data for 2016, so can only express taxes paid as a proportion of revenues for 2014 and 2015. This is unfortunate, as tax data is only meaningful when expressed as a ratio. What we can say from the figures we have, is that Swedfund's investee firms paid around 18.5 percent of revenues as tax in 2014, falling a little over 3 percent the following year. For the reasons given above, equity funds are not included in these figures.

²⁰ This is partly due to issues regarding data quality. The data provided by Swedfund on tax paid contained a significant proportion with zero values. Upon correspondence with Swedfund, it seems that zero values of tax could either mean zero tax paid or that information had not been collected. It is suggested for the future that different coding is used for a non-response vs. a zero tax paid allocation.

Table 27: Total Portfolio Tax Payments (SEK millions)

	2014	2015	2016
Count	21	18	24
Total	330.06	122.45	992.95
Average	15.72	6.80	41.37
Min	0.003423	0.003103	0.005242
Max	192.28	100.79	262.63
SD	43.50	23.53	85.12
Mean Tax Revenue as a % of Revenue (Removing Funds)	18.46% (17 Firms)	3.03% (15 Firms)	No Data
Median Tax Revenue as a % of Revenue (Removing Funds)	2.34%	0.73%	No Data

Source: Swedfund (internal) and authors' calculations. Mean Tax Revenue as a % of Revenue (Removing Funds see Note 2).

Turning to the equity portfolio in Table 28, we see that the mean tax paid is lower for equity investments 2014 than the overall portfolio, but slightly higher for 2015. Total average taxes paid (which includes equity funds unlike the ratios) are lower for equities in every year including 2016, with the difference in 2015 being greatest.

Table 28: Equity Portfolio Tax Payments (SEK millions)

	2014	2015	2016
Count	15	13	14
Total	218.58	21.02	394.71
Average	14.57	1.62	28.19
Min	0.003423	0.003103	0.005242
Max	192.28	6.23	262.63
SD	49.24	2.08	72.28
Mean Tax Revenue ^a	14.78% (11 firms)	3.67 % (10 firms)	N.A.
Median Tax Revenue ^a	2.34%	1.76%	N.A.

Notes: ^a Per cent of revenue (removing funds). Source: Swedfund (internal) and authors' calculations

Table 29 focuses on loans, and as expected tax revenue is higher than the portfolio average, constituting 25 percent of revenues. This is particularly influenced by a loan in a co-financing facility.

Table 29: Loan Portfolio Mean/Median Tax Payments

	Loan 2014	Loan 2015
Observations	6	5
Mean Tax Revenue	25.22%	1.72%
Median Tax Revenue	2.80%	0.73%

Note: Mean and median Tax Revenue as a Proportion of Revenue removing Funds. Source: Swedfund (internal) and authors' calculations.

Table 30 demonstrates the distorting effect of loan co-financing facilities and equity funds. Looking at the portfolio companies, the mean tax paid as a proportion of revenue looks somewhat more realistic than for co-financing facilities.

Table 30: Total Portfolio Mean Tax Payments by mode of finance

	Co-financing facility		Portfolio Company	
	2014	2015	2014	2015
Observations	3	3	14	12
Mean Tax Revenue ^a	93.42%	5.14%	2.40%	2.51%
Median Tax Revenue ^a	137.86% ^b	4.48%	2.13%	0.67%

Notes: ^a Per cent of revenue (removing funds). Source: Swedfund (internal) and authors' calculations. ^b There are only 3 observations (one is a loan and a portfolio investment) that have greater than 100% tax revenue paid. Co-financing facility that provides Mezzanine financing of hotel projects in Africa. Source: Swedfund (internal) and authors' calculations

In terms of region, Table 31 shows that the great majority of respondents are from Africa, followed by Europe, and that mean tax revenue are substantially higher in Africa. This may be due to a higher presence of co-financing facilities in Africa, however, which seems to inflate average tax revenues.

Table 31: Total Portfolio Mean/Median Tax Payments as a proportion of revenue by region

	Africa 2014	Africa 2015	Asia 2014	Asia 2015	Europe 2014	Europe 2014
Observations	9	9	2	1	4	3
Mean Tax	33.55%	4.45%	1.65%	0.0004%	1.00%	1.32%
Median Tax	5.24%	4.48%	1.65%	0.0004%	0.31%	0.40%

Source: Mean and median Tax Revenue as a Proportion of Revenue removing Funds. Swedfund (internal) and authors' calculations.

With regards to the age of the investments it seems that median tax payments reduce as a proportion of EBITDA over vintage (Table 32). This is to be expected as younger investments would typically be made in younger businesses, which may have less tax requirements or tax breaks in place for new businesses.

Table 32: Total Portfolio Mean/Median Tax Payments as a proportion of revenue by vintage

Tax year	2014			2015		
Vintage	2000-05	2006-10	2011-15	2000-05	2006-10	2011-15
Observations	3	7	7	4	6	5
Mean Tax	94.31%	1.66%	2.77%	6.01%	1.36%	2.66%
Median Tax	137.86%	0.82%	2.49%	4.48%	0.64%	2.79%

Notes: Mean and Median Tax Revenue as a % of Revenue ex. Funds. Source: Swedfund (internal) and authors' calculations

Table 33 breaks down the tax data by sector. The highest response rates are for services and financial Institutions – the other sectors had only one observation so were excluded. The key point is that services pay more tax than financial institutions. Looking at the median tax paid, services pay over double what the financial institutions paid in tax as a proportion of revenue, though those figures for may have been artificially inflated by the presence of co-finance institutions.

Table 33: Total portfolio mean/median tax payments as a proportion of revenue by sector

	Services Tax Payments		Financial Institutions Tax	
	2014	2015	2014	2015
Observations	7	6	6	6
Mean Tax	42.20%	5.19%	2.79%	2.24%
Median Tax	5.23%	4.48%	2.58%	1.70%

Notes: Mean and Median Tax Revenue as a % of Revenue ex. Funds. Source: Swedfund (internal) and authors' calculations

Perhaps the most important thing to emerge from the tax findings is that the data is too limited to be able to draw any meaningful conclusions. What we can say is that, for the data we have, tax is very volatile, being strongly influenced (and seemingly distorted) by the mode of financing, as well as the time period in question. In part, this can be explained by the very small sample sizes, which is a function of two things: first, the very low response rate to the annual survey described above; second, the relatively small size of Swedfund's portfolio, which is of course a more general issue.

Some ways in which these problems might be addressed are considered in the recommendations section. Swedfund's response to some questions on tax are given in Box 3 below. Although these are helpful in understanding the difficulties in drawing conclusions from tax data, they do not really help us understand why tax revenues have varied so much between the years in question.

Box 3. Behind the data: understanding Swedfund's approach to taxation

Paying tax is critical if governments are to have the resources they need to support development. While Swedfund is therefore right to highlight the importance of this, it is difficult in practice to attribute taxes paid – or not – by the firms that Swedfund invests in, to its actions, or draw clear conclusions from changes in tax paid. As Swedfund put it:

“A company might expand while no taxes are paid because of temporary tax exemptions, or they might contract but their tax payments might increase at the same time. Hence, while overall tax payments are useful as a “macro” indicator (among many) of a portfolio's contribution to a country, tax payments for individual companies can be very confusing given the large

number of unknown variables impacting the actual amount of taxes paid/payable.”

Despite these difficulties, understanding better how Swedfund engages with companies on tax, and how data collection on this issue varies, is very important. To gain insights on these issues a number of questions were put to Swedfund. The questions, and summaries of the responses, are given below.

1. How does Swedfund seek to influence a company on tax domicile?

“Tax is part of Swedfund’s extensive due diligence prior to investment. If the potential investee does not adhere to the criteria set out in our tax policy, the first option is to negotiate and influence the company to change for example its tax jurisdiction. If that is not possible, we will not make the investment. If we invest in a fund, and the fund in turn is considering investing in a holding company that does not adhere to the principles in Swedfund’s tax policy, the procedure is the same, i.e. we try to convince the fund and the holding company to change its policy.

If the fund still wants to conduct the investment, Swedfund has the possibility to opt out since that has been included in the legal framework of the investment. Swedfund adopted its policy on tax in December 2016.”

“The policy states that Swedfund encourages its investee companies and investment partners, with operations in multiple countries, to (i) report tax on a country-by-country basis; and (ii) adopt a publically available tax policy that refrains from aggressive tax planning and unbalanced profit shifting.” At the same time, Swedfund’s work on tax has increased significantly the last 2-3 years and we are constantly analysing and developing our tools in this area.”

2. Why is tax data less available for loans than equities, and services than manufacturing?

“A greater exposure of our loans is in manufacturing [See Table 8]. This may be demonstrative of less data being available as the manufacturing process takes time for something to build, for example a hotel or a textile production site. The time needed to build and get up and running means that the company will contribute to tax revenues after production has started.”

3. Why were average tax levels consistently higher in 2014 than 2015?

“There are fluctuations on an aggregated portfolio level due to changes in the portfolio, i.e. if we have exited an investment which contributes significantly to tax income it shows in our results or if a larger investment is not performing well one year, it influences the results.”

Source: Interview with Swedfund staff

5.2 Environmental, social and governance (ESG) impacts

Section 3.22 described the diverse range of ESG material provided by Swedfund. In this section, data was provided by Swedfund from the 2014 and 2015 Swedfund Portfolio Company Sustainability Reports.²¹ This refers to a questionnaire filled out by investees regarding their processes and development effects, covering audits and permits, occupational health and safety, labour and working conditions, and stakeholder feedback mechanisms. The 2014 survey had 132 questions. The survey primarily focuses on the compliance and governance of investees, ensuring that the right procedures and systems are in place (e.g. has the firm signed up to ILO guidelines), placing less emphasis on the use of those processes (e.g. carbon emissions).

Using these surveys Swedfund can identify areas of concern, track progress, and support companies. A number of changes were made between the 2014 and 2015 surveys to improve response rates and to make the data collected more standardised for analysis. Similarly, Swedfund has made efforts to increase the response rate to such ESG questionnaires, as their completion was not a requirement for investments made prior to Swedfund's "Policy for Sustainable Development" signed in 2010.

In order to make the most use of the diverse material from these questionnaires, we have identified a set of 30 core questions that map across the 2014 and 2015 data, for which there was a stronger response rate for comparability. Questions were removed from this analysis for multiple requirements:

- If the language is too distinct or non-comparable between years
- If the question refers to the action of a body outside the investee organisation (e.g. Have there been any visits or

²¹ Data was not provided to Swedfund for sustainability questionnaires completed by funds, which has slightly different criteria given their nature.

inspections from government authorities in order to assess...E&S aspects?)

- If the language is not fixed in the period of the year in question (e.g. Has your company performed any training to reach [Environmental and Social Management Systems] targets?)
- If the question does not directly relate to implicit development impacts (e.g. Have there been changes or developments in the Human Resource Policy during the reporting period?)
- If the figure is too output based. To create normalised data, many outputs such as water usage may have inadvertently penalised some of the more water using investments, such as Athi Steel. Such figures require context, but also more consistent units (with many investees either not reporting water data, producing data without units, or reporting in different units)

The 30 core questions are summarised in Table 34.

Table 34: Core ESG Questions selected

-
4. Does your company have a management system in place to manage and monitor significant aspects of E&S?
 - 5a. Does your company have a designated manager or board member specifically responsible for E&S issues?
 6. Does your company have an E&S policy (a document showing how the company addresses environmental and social issues in the operation of the business)?
 7. Has your company made a risk assessment on its operations, identifying and documenting the company's environmental and social impact?
 8. Does your company have a health and safety Policy?
 14. Does the company provide drinking water easily accessible and free of charge to all employees?
 15. Does the company have toilets and washing facilities sufficient in number, to local standards?
 16. Is first aid equipment available?
- Does your company compensate employees for overtime?

17. Does the work require personal protective equipment (PPE)? If Yes please indicate which type of PPE
 18. Does your company have an emergency and evacuation plan?
 19. Does your company have appropriate fire equipment?
 20. Does your company conduct fire drills? If Yes please indicate frequency?
 21. Does the company have a record of accidents and incidents covering the past two years?
 - 35a. Does your company have a Code of Conduct and/or Human Resource Policy?
 - 35b. Does your company have a Human Rights Policy?
 - 35c. Does your company have a Child Rights policy?
 - 35d. Does your company have a Human Resources policy?
 - 35e. Does your company have an Equal Remuneration Policy?
 - 35f. Does your company have a Non-discrimination Policy?
 - 35g. Does your company have a Disciplinary Measures Policy?
 - 40a. Does your company directly or indirectly anyone under 18, including temporary staff?
 41. Do all employees (including temporary staff) have their own employment contract?
 49. Does the company directly or indirectly through third party contractors employ any forced or bonded labour?
 - 50a. Do the employees have the formal right to establish and/or join a union?
 - 51a. Do employees have the right to engage in collective bargaining?
 57. Does your company assess business partners such as subcontractors and suppliers in respect to E&S matters?
 62. Does your company have channels for stakeholders to report environmental and/or social concerns?
 63. Does your company regularly conduct stakeholder dialogues?
 66. Does your company report publicly on E&S performance and compliance with applicable E&S legislation and standards?
-

Source: Swedfund (internal)

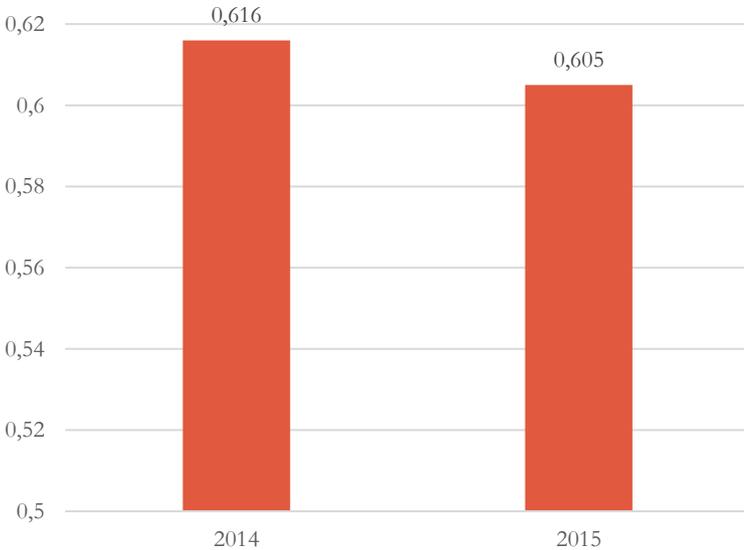
The next task was to make responses comparable. To this end an ESG 'index' was created, with responses and scores on each question normalised between 0 and 1, where 1 represents the best performance and 0 the worst. Each company can then be ascribed an ESG score, which captures its performance on the issues described in table 33, allowing comparison between different companies, and between the same companies over time.

As well as being important in its own right, we are interested in how ESG performance interacts with financial performance. To assess this, a core group of 20 companies for which we have both financial and ESG data has been identified. Before analysing this set of companies, we need to consider how representative it is of the full investment portfolio.

5.2.1 ESG performance by aspects of portfolio²²

In terms of value, the set of firms accounts for 19 percent of the total portfolio. Chart 4 shows the average ESG performance for the two years that we have data. As we can see, there is little change between the years, with average performance declining slightly.

Chart 4: Average of Normalised ESG Performance



Source: Swedfund (internal) and authors' calculations

²² All charts presented in this section are compiled using Swedfund internal data.

Chart 5 compares ESG performance over time for equities and loans. As we can see, loans perform better in general, but also show more improvements over time.

Chart 5: ESG Performance by Type of Financing and Year



Source: Swedfund (internal) and authors' calculations

Chart 6 compares ESG performance by vintage. Interestingly, newer investments perform considerably worse than older investments. One implication of this is that engagement with Swedfund leads to improved ESG performance over time.

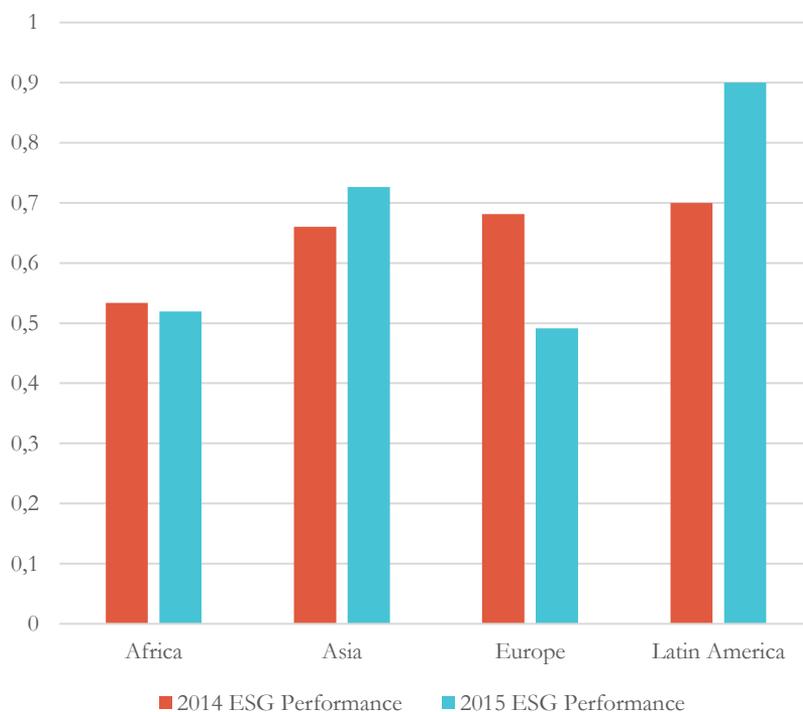
Chart 6: ESG Performance by Vintage



Source: Swedfund (internal) and authors' calculations

Chart 7 compares ESG performance by region and over time. Africa is the worst performing region, and also shows no improvement over the two years in question. Latin America is the best performing region, and also shows the largest improvement from 2014 to 2015. Europe is the only region to exhibit a significant deterioration in performance, which is explained by a single investment.

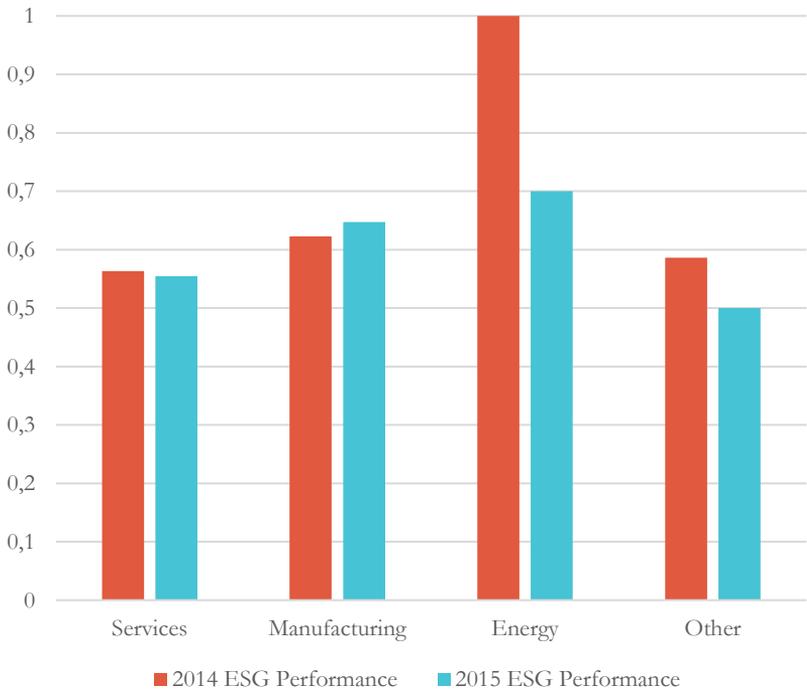
Chart 7: ESG Performance by Region



Source: Swedfund (internal) and authors' calculations

Chart 8 give the same information by sector. Energy was the best performing sector in 2014 with a maximum score of 1, but saw a significant decline the following year. It should be noted that this is a very small sample, but it is interesting to see how ESG performance for an individual investment can deteriorate sharply, potentially skewing portfolio-level results. For the other sectors (where sample sizes are much larger) no discernible differences can be observed.

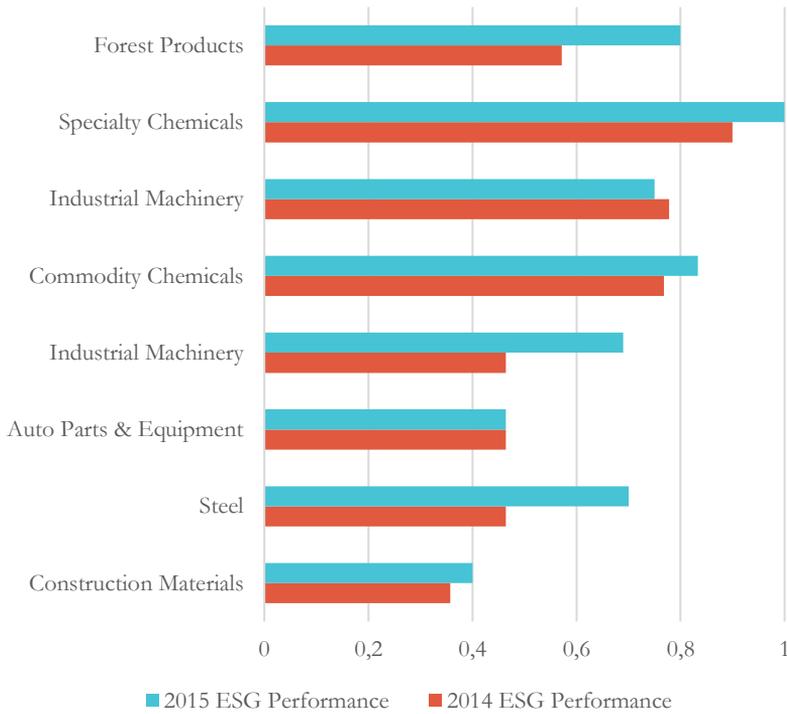
Chart 8: ESG Performance by Sector



Source: Swedfund (internal) and authors’ calculations

Within ‘services’, we can distinguish sub-sectors. Of these, ‘ports’ score very highly on the ESG index and also show significant improvement over the two years (~0.8 to 0.9). In contrast, ‘automotive retail’ has a low score (0.36) and shows little improvement (0.38).

Chart 9: ESG Performance by Manufacturing Sub Sector



Source: Swedfund (internal) and authors' calculations

Within manufacturing we can see similar variability, as shown in Chart 9. Small sample sizes make it impossible to generalise, but this does illustrate that a) some sectors are likely to score better on ESG indicators than others in terms of 'initial conditions', and b) even where performance is quite poor, there is significant scope for improvement. If we compare the 'auto parts & equipment' sector with 'steel', for example, we see identical scores in 2014. 2015 saw a large improvement in ESG performance in the latter, but no change at all in the former. This cannot be explained by inherent features of the sector, and must therefore be driven by commitment to change.

Box 4: Behind the data: Swedfund's Process w. regards to ESG

Three interesting relationships emerged from the data on ESG performance. As in the previous box on financial sustainability, we put these questions to Swedfund for context and clarification. The questions, and summaries of Swedfund's answers are given below.

1. Why is ESG performance better for older than newer investments (Chart 6)?

"In each new investment proposal we include an action plan for environmental and social improvement measures to be made over time. This action plan is attached to the legal agreement and is a requirement for our portfolio companies to comply with. The ESG measures in the action plan can have deadlines from 1 month up to several years. This means that older investments will have had a longer engagement period from Swedfund and other owners which has resulted in changes with regard to ESG-behaviour.

In addition, over the past 4-5 years our ESG team has grown, we have gained more experience, formalised our processes more and the world around as also evolved in its approach to ESG. As a result, the requirements and the extent of the ESGAPs in our investments have increased over this period on our new investments, whereas those with whom we are already invested naturally are subject to the agreements signed at the time and only at their own behest would sign up to additional requirements."

2. Why is ESG performance better for larger than smaller investments (Table 35)?

"Our larger companies may have more resources for environmental and social issues. We often see that a company performing well financially also has the resources to focus on environmental and social risks and impacts. It also often depends on who has the responsibility of ESG matters within the company [and our relationship with them]."

3. Why is ESG performance better where Swedfund's equity stake is larger (Table 35)?

"When Swedfund owns a larger share of an investment, our potential influence in various areas increases. When we own a smaller share, we have to work through and with partners...In a larger equity stake we may be able to appoint an internal or external person to have a seat on the Board of that company. This gives us is a possibility to engage closely with the portfolio company. (Example: Salary increase in an investee in the health sector after we made a salary comparison for different sectors in the country in question.)"

Source: Interview with Swedfund staff

5.2.2 ESG vs. economic performance

As well comparing ESG performance by aspects of the portfolio, it is interesting to contrast ESG performance with that for the financial and economic indicators described above. To facilitate this, performance on these indicators was also normalised between 0 and 1. Sample sizes are too small to generate statistically significant results, so the findings summarised in table 35 are indicative rather than definitive.

Table 35: Relationship between ESG and economic and financial indicators

Portfolio coverage	Comparative indicators	Suggested relationship	Strength
Whole portfolio	ESG vs. Employment 2014	Negative	Weak
	ESG vs. Employment 2015	Positive	Weak
	ESG vs. revenue 2014	Negative	Weak
	Change ESG vs. revenue change	Negative	Weak
	ESG vs. EBITDA 2014	Negative	Weak
	ESG vs. EBITDA 2015	Positive	Weak
	Change ESG vs. EBITDA change	Positive	Weak
	ESG vs. tax paid 2014	Negative	Weak
	ESG vs. tax paid 2015	Positive	Medium
Equity portfolio	ESG 2014 vs. acquisition value	Negative	Medium
	ESG 2015 vs. acquisition value	Positive	Medium
	ESG 2014 vs. initial % stake	Negative	Strong
	ESG 2015 vs. initial % stake	Positive	Medium
Loan portfolio	ESG 2014 vs. loan size	Negative	Medium
	ESG 2015 vs. loan size	Positive	Strong

Source: Swedfund (internal) and authors' calculations

While there is some indication of relationships these are generally weak. The strongest finding is between ESG performance and acquisition size (for equities) and loan size. In both cases, there is a negative relationship at the time the investment begins, but this turns strongly positive in the following year.

This suggests that Swedfund may be able to influence investments more when its stake is larger. The fact that we find the same result for the size of Swedfund's equity stakes (i.e. the weight of its holdings in the company) is supportive of this interpretation.

5.3 Concluding remarks on ex post impact assessment

In this section we have seen indications that Swedfund is having a positive development impact in some areas, though the very limited historically comparable data, absence of baselines, and very variable response rates to survey questions makes it impossible to state this with any certainty.

At the portfolio level, investees have seen improved revenue and EBITDA performance, though net employment creation has been negative. These aggregate findings mask significant differences by investment mode and vintage however, as well as smaller differences by region and sector.

For investment mode, financial losses are concentrated in equity investments, particularly a small number of large investments made through equity funds. In contrast, the financial performance of the loan portfolio is positive. A conclusion that could be drawn is that Swedfund should continue to increase its use of loans relative to equities. The first point to make on this is that losses are focused in equity fund investments rather than those made directly by Swedfund. The case is therefore strongest for reducing these types of investments. As we are concerned with development impact, there are other reasons to support this shift. Investment in a firm's equity gives Swedfund significant influence, particularly as it generally obtains a seat on the board. As we saw in the ESG section, there is some indications that Swedfund may have used this influence to improve performance on ESG issues. If so, this appears to be more likely for larger investments and where Swedfund's stake is greatest. This makes sense intuitively.

Investments through equity funds (and other financial intermediaries) do not offer this opportunity for influence. The same is true for loans of course. While increasing the share of loans in the portfolio could be positive for financial performance, there could be a trade-off in terms of the potential for additional development impact. An important point to note is that the overall improvement in the financial performance of Swedfund's investments, may be driven by the increase weighting given to loans relative to equities, rather than to the influence of Swedfund over its investees.

More generally, the concentration of losses in the equity portfolio highlights the risks that Swedfund faces. Given its relatively small size, scope for diversification of risk is limited. As Swedfund is increasingly focused on lower-income countries, this problem may increase. A core recommendation emerging from the ex-ante impact assessment is that Swedfund should focus on countries where needs are greatest. These are also likely to be higher risk. By definition, seeking to achieve greater development impact by investing in places where the needs are greatest increases the risk of losses.

Turning to employment effects, we see a net fall across the portfolio as a whole. Again, however, these are not evenly distributed but concentrated in older investments, Asian investments, manufacturing, and investments made through equity funds. Younger investments – particularly those in Africa – were more likely to see net job creation over the period considered. The loan portfolio saw net job creation, particularly in more recent loans, and those located in Africa. The arguments made against investing through equity funds are also valid here. As well as seeing the largest reductions in employment, Swedfund's ability to influence these investments – both to improve financial performance (thus protecting jobs) and to directly influence employment practices – is more limited than in equity investments. The explanation for the better employment performance of the loan portfolio is unclear, but the case for balancing equity and loans made above, and particularly for maintaining direct equity investments as a large part of the portfolio, also holds.

Despite the relatively small sample of ESG data for 2014/2015, ESG performance looks relatively static at a portfolio level. Half of the sample improved their performance, while 45 percent saw a deterioration, but these were relatively minor except for one or two investments. This is to be expected when looking at processes compared to outputs, which may vary more significantly on a year to year basis. We also note the better ESG performance of older investments and loans and take this as a possible sign of the success of Swedfund's engagement with actors.

Finally, we note the relationship between ESG performance and acquisition size (for equities) and loan size. The negative relationship at the time the investment begins turns strongly positive in the following year, suggesting that Swedfund may have greater influencing ability with larger stakes in the investee. This result was supported by similar results in Swedfund's equity stakes. As elsewhere in this evaluation, the data available is too limited for these findings to be any more than suggestive.

6. Ex-ante framework to maximise additionality

In section 4.1, we assessed Swedfund's impact on an ex-ante basis, focusing on the regions, countries and sectors that are invested in. Drawing on the literature previously reviewed, this was based on the rationale that greater impacts can be achieved through more strategic asset allocation. This relates to links 2 and 6 of the causal chain described in section 3.1.

In this final section we expand on this logic, and identify other ways that Swedfund could enhance its development impact. This can be thought of as an 'additionality framework', where the different ways that Swedfund could create positive development impacts are distinguished and discussed. How this could be operationalised would depend on integration into existing procedures and practices, so we do not make explicit recommendations in this regard. In any event, the details matter less than that Swedfund develops effective mechanisms to maximise impact across the full range of areas.

The section is informed by the literatures reviewed above, as well as the research linking DFI and challenge fund activities and financial instruments as well as private sector development (PSD) (including SMEs) with development outcomes in developing countries.

The various types of additionality considered are financial additionality, sector additionality, project selection additionality, financial design additionality, and management additionality. We do not consider the issue of asset allocation by location, as this is addressed above in some detail.

6.1 Financial additionality

For some, financial additionality is created 'by offering financing to financially sustainable projects which would otherwise have been rejected by the existing capital market' (Sjö and Flygare, 2008:12). A

more nuanced way of looking at this is to also consider the type of financing. It may be possible to obtain short-term expensive finance for example, but the project may require long-term affordable finance. Financial additionality in this sense is therefore the supply of the *right kind* of finance that would otherwise have been unavailable.

For Romero and Van de Poel (2014) and IEG (2013) financial additionality is much more likely in less developed countries, as financing is generally scarcer. To continue the previous point, it is also the case that longer-term and/or affordable finance is particularly scarce in these countries. For similar reasons, investments in smaller companies tend to be more financially additional as they are less well served by financial markets, and by DFIs (Heinrich, 2014; Griffiths et al., 2014). Investments in companies domiciled in developing countries are also more likely to be additional since they are usually more credit constrained than those domiciled elsewhere. Relatedly, leverage ratios tend to be higher in higher-income countries and larger companies, but this does not prove additionality, since it is less likely that DFI investment was necessary for the investment to happen (Pereira, 2015). More broadly, as suggested by Heinrich (2014): ‘the more risky and innovative a proposed business project is, the more likely it is that donor support is additional’ (p. 7).

As well as location, timing is also important. For example, DFI financial additionality was found to be strongly related to global market liquidity and risk conditions (Mutambatsere and Arvanitis, 2012) and was particularly apparent in times of crisis (IFC, 2011).²³

For Massa (2011) a 10 percent increase in DFIs’ commitments increases per capita GDP by 1.3 percent in lower-income countries, and 0.9 percent in higher-income countries. As well as suggesting

²³ FMO and the German Investment Corporation (DEG) were able to provide a 7.5 year senior unsecured tranche when commercial finance dried up after 2008, and where they thus became ‘lenders of last resort’. This is likely to have increased their additionality at this time, and ‘suggests that additionality depends on international economic trends’ (Carnegie Consult and ODI, 2014: 23).

additionality, this also supports the view that this will be greater in lower-income countries.

6.2 Sector additionality

In section 2.1.4, we reviewed the evidence relating different sectors to potential development impacts. Further insights from the PSD and challenge fund literatures are provided here.

For specific benefits of investments in infrastructure, in the context of Latin American countries, Sandell and Hernández (2012) found that the infrastructure sector was ‘key for technological development and improving competitiveness in the global markets’, which in turn may lead to faster growth and poverty reduction.

In the PSD/challenge fund literature the arguments in favour of investment in agriculture are reinforced. These include the fact that agriculture-driven growth is two to four times more effective in reducing poverty than growth in other sectors (CAFOD, 2011; AfDB, 2013). It is not just growth that matters, but ensuring that growth is as pro-poor as possible. Given its importance in lower income countries, the agricultural sector is uniquely important in this regard (Suryadarma and Suryahadi (2007). Fan and Rao (2003) find that government spending on agriculture, irrigation, education, and roads contribute significantly to agricultural growth, and that ‘agricultural growth is the most crucial engine for poverty alleviation in rural areas’ (cited in Suryadarma and Suryahadi, 2007: 2).

The literature also confirms that labour-intensive sectors are particularly important for poverty-reduction. A review of the impacts of challenge funds on poverty finds the greatest impacts in labour-intensive sectors (garment production, horticulture) in Vietnam and Ethiopia respectively (Triodos Facet, 2010). Furthermore, a report on the linkages between IFIs and PSD also stated the importance of investing in labour-intensive sectors (IFC, 2011: 10).

The OECD (2006) proposes that donors invest in sectors where returns are low or deferred, such as education, healthcare, housing, small business, farming and refinancing (this also has implications

for financial additionality of course). In terms of sectors, health and education are found to be important for private sector growth in developing countries, as is infrastructure (Griffiths et al., 2014).

Bateman (2013) states that for DFIs to enhance their development impact, they will need to strengthen support to frontier sectors that have ‘high added value and local competitive advantages’ (cited in Romero and Van de Poel, 2014, p. 38).

6.3 Project selection

Within a particular sector, a number of aspects of projects can affect development potential, which could inform DFIs selection processes.

6.3.1 Firm size

Do smaller or larger firms contribute more to poverty reduction? Overall, the literature finds that investments in larger firms contribute more to total employment growth than investments in SMEs. Various studies, including a meta-regression analysis, find evidence to support this claim (e.g. Macqueen, 2005; CAFOD, 2013; Piza et al., 2016). These studies also find that job security and conditions tend to be worse for smaller firms.

On the other hand, SMEs were found to: better serve the poor by providing affordable products (Karnani, 2006); be more dynamic and innovative; more embedded in the local culture; and more seasonal, diurnal or nocturnal, which favours women (Macqueen, 2005). Further, it is argued that SMEs can play a multidimensional role on poverty reduction, by helping to reduce ‘insecurity and powerlessness, social inequity, mass production drudgery, ecological or landscape uniformity and loss of cultural identity’ (Macqueen, 2005: 7).

6.3.2 Domiciles of investment companies and tax havens

Investing in companies domiciled in developing countries can contribute more to the competitiveness of locally-owned industry, the mobilisation of domestic resources and the generation of taxes for domestic governments (APRODEV, 2013; Romero, 2014). However, between 2006 and 2010 only a quarter of EIB and IFC investments were domiciled in low-income countries (Romero, 2014). Furthermore, despite the negative impact on domestic resource mobilisation, APRODEV (2013: 6) states that ‘all DFIs appear to use them [tax havens]’. Most DFIs do not report taxes generated on a company-by-company basis, making it impossible to assess performance in this regard.

6.3.3 Goods & services

Since the poor spend 80 percent of their income on food, clothing and fuel, these goods need to become cheaper for them to benefit through consumption (Karnani, 2006). For Karnani (ibid.) the only way to reduce the price of such goods is either to reduce their quality, or improve the technology used to produce these goods. Others would argue that increasing competition between firms, and improving transport links can enable G&S to reach new areas, while putting downward pressure on prices and upward pressure on quality. Moreover, approaches aimed at targeting Bottom of the Pyramid (BoP) consumers tend not to provide lower-quality goods, while technology improvements, while useful, have rarely occurred in the recent past with these types of products.

To date, DFIs have paid very little attention to these issues, suggesting scope to increase development impact through giving more consideration to the G&S produced and sold by investee firms. One exception in this regard is the increased focus on renewable energy provision by Swedfund, as well as other DFIs. Off-grid energy has the potential to supply energy to previously unserved rural areas.

6.4 Financial design

Overall, the literature provides no conclusive evidence as to the type of financial instruments that tend to have more beneficial developmental outcomes. Indeed, Romero (2014:10) states that ‘[t]here is little theoretical or empirical evidence available to support any particular instrument, from a development perspective’, while Romero and Van de Poel (2014: 40) mention that ‘questions remain as to which financial sector is needed and what are the appropriate (sic) ways to foster local enterprise development and growth and the sustainable development of local economies’.

In previous sections we discussed the potential development benefits of equity investment. From a financial perspective, another advantage is that risks are more shared with equities than loans – i.e. if circumstances deteriorate the equity investor shares this risk and vice versa. On the other hand, loans have the advantage of offering certainty over required payments, but the disadvantage of potentially creating an unsustainable debt burden.

The other main form of instrument used by DFIs is guarantees, which are mainly used to ‘reduce the risk of investment so that capital will be attracted towards high-risk projects’ (Romero and Van de Poel, 2014: 22). While this implies they are a potentially useful instrument for DFIs, there is some debate on this question, as reported in Bracking and Ganho (2011). One reported advantage is that “when guarantees are priced to reflect risk, they make it more likely for the SME program overall to show net [financial] benefits in the end” (Klein, 2010). Another is that they could help build capacity of participating banks. Despite these theoretical advantages, there is relatively little evidence on the impact of credit guarantees on firms. One study found government credit guarantee schemes helped firms maintain their size and increased their survival rate, but did not improve investment or R&D (Oh et al., 2009, cited in Piza et al., 2016). Another reported effects of credit guarantee schemes are that firms invest more in less capital-intensive technology, which may be more ‘pro-poor’ (Karnani, 2006). Overall, credit guarantee schemes are thought to be beneficial to firms, with some evidence attesting to this.

Although 15 out of 20 DFIs from around the world use guarantee schemes, five do not. One reason for this is that some DFIs are only mandated to offer ODA-eligible finance, and guarantees may not qualify as they do not constitute financial flows. (Romero and Van de Poel, 2014).

6.5 Management additionality

As discussed in the context of equity investment above, development impacts can potentially be enhanced through direct or indirect management influence. As well as this impact channel, a few other elements are worth mentioning. In the context of challenge funds, Heinrich (2014) discussed how DFIs can use the application stage to enhance the project proposal by the company, e.g. to make it more pro-poor, environmentally sustainable or commercially viable. Other reports have made similar findings (Coffey International Development, 2013; Poulton, 2009).

DFIs may also be able to use their influence – as well as their knowledge of the wider market systems – to encourage greater integration in supply chains. CAFOD (2013) finds that small businesses are often stamped out of competition by incoming FDI, which often operates at larger scales and sophistication, and that policies of DFIs to ‘level the playing field’ for SMEs do not work. This is because interventions to include SMEs into supply chains don’t address the power relations extant within the supply chain. Instead, the report suggests that benefits could be increased if DFIs also focus on supporting people and SMEs to influence local and national policy spaces (CAFOD, 2013).

7. Conclusions and recommendations

Returning to the question motivating the research, this evaluation concludes that it is not possible to say definitively whether Swedfund has reduced poverty through its activities. As discussed throughout the report, the data available is simply too limited to enable a firm view to be reached. Having said that, we do find indications that Swedfund is having a positive impact on poverty in some respects, and may also have positively affected the ESG performance of the firms in which it invests.

Swedfund has increasingly shifted its operations towards low-income, capital scarce countries. The question of financial additionality is largely being addressed through this change. It is possible that Swedfund's investments in these countries are crowding out a pool of private capital in a general sense, but this seems unlikely. It is more likely that, for some investments, it would have been possible to raise financing from private sources rather than from Swedfund. While this brings into question whether financing is purely additional, it does not undermine the investment case. As we have seen, Swedfund has the potential to create additional development impacts in a number of areas other than the straight provision of finance – the way that it uses its management influence over companies, for example. The fact that Swedfund may have improved the ESG performance of some of its investments, is supportive of this potential.

Where financial additionality is less clear, the onus on Swedfund increases to ensure that other forms of potential impact are maximised. While there are some indications of positive effects in these areas, these are currently not being maximised in our view. Developing a more systematic ex-ante framework such as that proposed in section 6 is an important part of this, as it makes it more likely that influence will be maximised through the life-cycle of each investment.

A final opportunity for impact relates to exit. There is a risk that where progress has been made – for example, with respect to

workers' rights – these do not survive Swedfund's exit. This is particularly likely where a sale is made to an institution that does not share Swedfund's development objectives. While it may not be possible to avoid this entirely, efforts should be made to ensure a positive development legacy. Part of this may be achieved by demonstrating that being a good 'corporate citizen' is compatible with financial sustainability through the investment process. It also implies that care should be taken when exiting equity positions in terms of the choice of buyer.

While there is significant scope for greater impact, things do seem to be moving in the right direction in some areas. Results from more recent investments are generally stronger than from older investments, for example. Although the financial performance of recent investments is stronger than older investments, however, these are concentrated in the loan rather than the equity portfolio, suggesting that – at least in part – these effects are the result of a shift into less risky types of investments (i.e. loans) and a reduction in the weight of higher risk investments (particularly through equity funds). Improved financial performance may therefore be driven more by a shift in asset allocation, than in the influence of Swedfund on the companies in which they invest. On the other hand, the fact that, within the loan portfolio, there is some variability (e.g. African loans perform better), might suggest that Swedfund is able to exert a greater positive influence in some contexts than others. Because of the data issues described above, it is impossible to clearly assess this.

Results for both employment and tax are very difficult to interpret. For employment, there is also some evidence that more recent investments have performed better, but this may also be influenced by the changes to asset allocation described above. For tax, little can be said. The data available is very limited, and heavily distorted by results from equity funds. Excluding these from the analysis makes the sample size issue worse.

As well as small sample sizes, we also have very limited time coverage. At most there is three years of data, and in some cases – i.e. key tax ratios – only two. It is impossible to draw meaningful conclusions on impact in this circumstances. For tax, it would be

very difficult to draw conclusions on Swedfund's tax impacts even with more data, as so many other factors influence how much tax is paid and when it is paid. While this is a challenge, it is not an insurmountable one. In the recommendations section below, we make some suggestions on how it could be addressed.

ESG performance, in contrast to economic indicators, is generally better for firms that Swedfund has been involved with for some time – rather than newer firms. We interpret this positively, agreeing with Swedfund that this may well be evidence of the positive impact that engagement can have over the longer term. The same caveats with respect to sample size and time covered also apply here.

These factors suggest that Swedfund is likely to be generating some poverty impact by providing additional capital where it is needed (ex ante assessment), and also positively influencing the ESG performance of some of the firms in which it invests (based on indications of ex post results data). It may also be having a positive influence on financial performance, though this is more difficult to attribute to Swedfund's activities, as it could be explained by changes in the portfolio in terms of reduction in risk-profile. For employment and tax, we do not discern any clear impact.

Given data and sample size issues, it is not possible to say more than this. It is possible that Swedfund's impact is much larger than it appears. It could also be lower. We simply do not know. This raises two important questions: First, how could Swedfund significantly increase its poverty impacts? Second, how can these impacts be robustly measured and used to inform a dynamic improvement in impact over time?

For the first question, Swedfund, as with all DFIs, faces a trade-off. Its impacts will be greatest – and the additionality of its investment surer – when it invests in countries, regions and sectors where the need for investment is greatest. Here the potential impacts on poverty are largest. Unfortunately, risks are also likely to be the greatest in these situations. We have seen that Swedfund faces significant financial risks, where losses can be concentrated in a few investments. The increase in the proportion of loans in the portfolio

is one response to this. Another way of dealing with this issue would be to invest in lower risk ventures, but this would undermine the impacts that Swedfund is trying to achieve, as well as calling into question the extent to which its investments are financially additional.

We see two positive ways that this could be addressed. First, the focus on higher-risk, more potentially impactful investments could be accelerated, with an acceptance that losses will be higher and Swedfund may not be able to operate on a financially self-sufficient basis. This would require regular injections of capital from the Government, but this can be justified on the basis of impact. Second, Swedfund's financial sustainability could potentially be maintained if risks were mitigated through greater diversification. This would require Swedfund to be substantially larger than is currently the case, however. Again, this would require a capital injection from government, possibly a quite large one, but this would be a one-off designed to enable Swedfund to reach a sustainable size such that risks could be well diversified.

If neither of these routes are taken, and Swedfund faces pressure to be financially self-sufficient, then it is likely that development impacts will reduce, as survival will require a less risky (and therefore less potentially impactful) portfolio of investments. While there would still be development impacts in these circumstances, and these could be enhanced through the different forms of additionality discussed previously, total impacts will be less than could be achieved.

Both options require additional capital, either on an annual basis, or as a one-off. To justify this, Swedfund would need to enhance its development impacts, and demonstrate clearly that it is doing so. This brings us back to the second question posed above: how can impacts be robustly measured and used to inform a dynamic improvement in impact over time? With respect to quantitative evaluations, a key issue is sample size. The second option, where Swedfund significantly expands its portfolio, would help to address this.

Although a larger portfolio would make robust measurement of impact more feasible, it certainly does not guarantee this. An

important issue in this regard is indicators. Swedfund, as with all DFIs, seeks to obtain data on a very large number of indicators. This is problematic for two reasons. First, more important indicators are not differentiated from less important ones, so that the former are ‘drowned out’ by the latter. Second, a very large set of indicators makes it difficult to ensure internal consistency, such that indicators do not contradict each other. Rather than measure more and more things, a better approach would be to be very clear about which impacts are most important to Swedfund, and then choose the minimum number of indicators that best capture these.

As well as limiting their number, indicators should be designed such that meaning cannot be obscured or misinterpreted. For example, tax questions should be designed to elicit clearly how much tax is paid in each jurisdiction as a proportion of economic activity/profits.

Robust evaluation also requires comparable indicators to be used over time. There is no alternative to taking a long-term view, and putting in place a simple, coherent measurement system that is maintained over a lengthy period. This may make it impossible to definitely assess impacts for some years, but there are no short-cuts to achieving this. Swedfund faces regular calls from its shareholder and other actors to focus on new areas, and no doubt this will continue. The key is to ensure that this does not disrupt the monitoring of impact in core areas over the longer term. Again, ensuring that this ‘core’ is as simple and clear as possible, makes this more likely to be sustainable.

A final point is data coverage. Response rates to Swedfund’s annual survey are poor in some areas, particularly taxation. There are many things that could be done to improve this, but a simple solution could be to make this part of the contractual obligations of investee firms.

If Swedfund does not expand, but increases its risk appetite as suggested above, sample size issues cannot be addressed as readily. This does not remove the importance of indicator selection, however, quite the opposite. Methodologically, serious thought should also be applied to putting in place robust small-N methods,

to measure impacts, and assess Swedfund's contribution to these impacts, again over the longer term. It is outside the scope of this paper to go into detail in this respect, but a combination of natural experiments and comparative case-studies are likely to be important.

Broadly, DFIs tend to move together in their activities and the way they assess these. There is much to be gained from pooling resources and from mutual learning. There is also a risk that this stifles innovation and diversity. We know a lot about how to invest to support the private sector in developing countries, but we certainly do not know everything. Now the importance of the private sector is properly reflected in the SDGs, and the importance of DFIs in fostering PSD is increasingly recognised, it is essential that DFIs maximise their impact in everything they do. This requires a bit more strategic thinking and risk-taking. Difficult perhaps, but not impossible.

Our recommendations are that:

- Swedfund's focus on low-income countries and the sectors with the greatest potential development impact within these countries is strengthened.
- To address the increase in investment risk this would create we propose two options:
 - i) Swedfund becomes a specialist DFI focusing on high-risk/high-impact investments, but accepts that this will increase losses in the portfolio, and require regular capital injections from government to support this.
 - ii) Swedfund expands significantly and develops a more diversified portfolio to mitigate risk. This would enable the focus on high-risk/impact investments to continue, but within the context of a more diversified portfolio. While this diversification would make it possible for Swedfund to retain financial self-sufficiency, it would require a significant, one-off capital injection.
- The most important development impacts that Swedfund is seeking to achieve are identified, and as few indicators as possible are developed to capture these impacts. Rather

than rely on DFI norms, there is a good argument that these should be designed on a bespoke basis to fit with Swedfund's objectives and goals.

- Indicators should be designed to be unambiguous.
- An ex-ante framework is developed to select the sectors and projects with the greatest potential impacts.
- Baselines are taken at the point of investment, and a core of impact indicators gathered consistently over the life of the investment, with investee companies required to respond.
- More consideration is given to exit, in terms of ensuring a development legacy, and follow-up occurs with exited investments.
- Appropriate evaluation methods are used to assess impact. Generally, these should be a mix of quantitative and qualitative approaches, with issues such as sample size, causality and attribution given full consideration.
- The results of ex post impact assessments are used to inform sector and project selection (i.e. the ex-ante framework evolves over time in the light of achieved impacts).
- More resources are devoted to monitoring and evaluation, and used as efficiently as possible.

If none of these recommendations are followed, then Swedfund may have a positive impact on poverty, but this will not be as large as it could be and it will be impossible to rigorously assess. If neither of the two structural reform options are considered possible, the recommendations on indicators, data and methods would still address some of these issues, however, and should be considered seriously. In our view, a combination of structural reform and a concerted effort to streamline and strengthen M&E practices, would put in a place a dynamic whereby poverty impacts could both rise progressively over time and be increasingly accurately measured.

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