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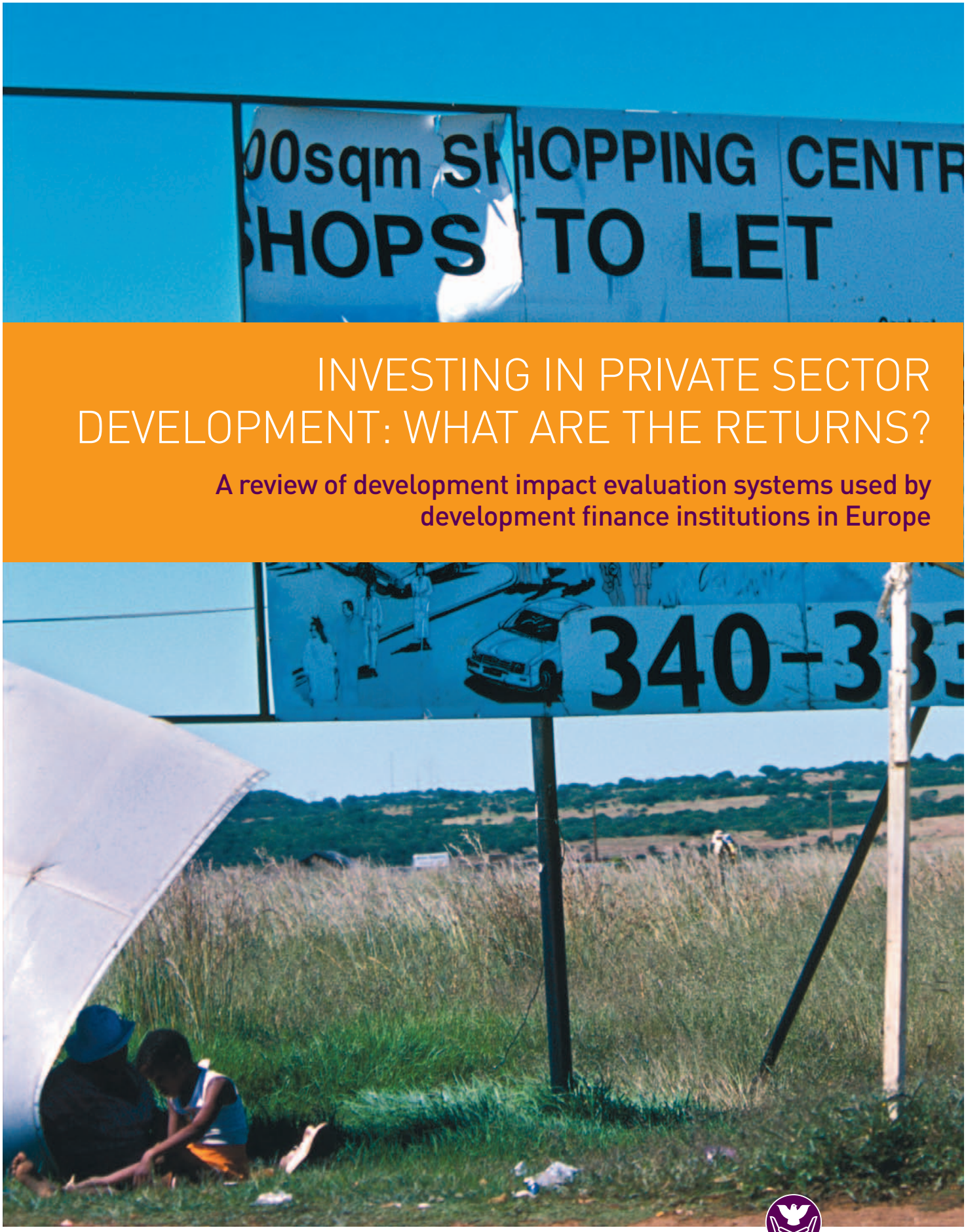

INVESTING IN PRIVATE SECTOR DEVELOPMENT: WHAT ARE THE RETURNS?

A review of development impact evaluation systems used by development finance institutions in Europe

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Norwegian Church Aid has commissioned this report from
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ABBREVIATIONS AND ACRONYMS

BIO	Belgian Investment Company for Developing Countries
BMI-SBI	Belgian Corporation for International Investment
CDC	CDC Group plc (United Kingdom)
COFIDES	Compañía Española de Financiación del Desarrollo (Spain)
CI	Corporate Indicators
CSR	Corporate Social Responsibility
DEG	Deutsche Investitions- und Entwicklungsgesellschaft (Germany)
DFI	Development Finance Institutions
DOTS	Development Outcomes Tracking System
EC	European Commission
EDFI	Association of European Development Finance Institutions
EFP	European Financing Partners
EIRR	Economic Internal Rate of Return
EMPEA	Emerging Markets Private Equity Association
ESG	Economic, Social, and Governance
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FINNFUND	Finnish Fund for Industrial Cooperation Ltd.
FIRR	Financial Internal Rate of Return
FMO	Entrepreneurial Development Bank of the Netherlands
GDP	Gross Domestic Product
GPR	Corporate-Policy Project Rating
IFC	International Finance Corporation, World Bank Group
IFU/IØ	Industrialisation Fund for Developing Countries (Denmark)
IRR	Internal Rate of Return
LDC	Least Developed Country
LMIC	Lower Middle Income Countries
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MDGS	Millennium Development Goals
NCA	Norwegian Church Aid
NORFUND	Norwegian Investment Fund for Developing Countries
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OEEB	Development Bank of Austria / Oesterreichische Entwicklungbank
PSD	Private Sector Development
PROPARCO	Société de Promotion et de Participation pour la Coopération Economique (France)
SEIA	Social and Environmental Impact Assessment
SIFEM	Swiss Investment Fund for Emerging Markets
SIMEST	Società Italiana per le Imprese all'Estero (Italy)
SOFID	Sociedade para o Financiamento do Desenvolvimento (Portugal)
SME	Small and Medium Enterprise
SWEDFUND	Swedfund International AB
UNGCSAT	United Nations Global Compact Self Assessment Tool

PREFACE

As we are approaching 2015 it is evident that the target set in the Millennium Development Goals (MDGs) of halving the number of people living in extreme poverty still is far from being achieved. Faced with this challenge a growing number of policy makers are arguing that aid budgets are better spent on promoting investment in private sector development (PSD). This line of thinking is partly inspired by the controversial, but widely viewed as efficient, Chinese business oriented approach to development in Africa. Moreover, the significant growth rates observed in both emerging economies and in low-income countries over the last decade, even during the financial crisis, have rightly opened the eyes of investors to the economic potential in many developing countries. Finally, developed country governments facing fiscal constraints at home find the idea of aid being spent to leverage investment alluring since it legitimizes governmental subsidies to their private sector.

This trend is not only reflected in words. During the last ten years the budget of the International Finance Corporation (IFC), the World Bank's private investment arm, has increased almost four-fold. In Europe development aid is increasingly channeled through Development Finance Institutions (DFIs). Meanwhile, the Norwegian government has almost doubled its funding for the Norwegian Investment Fund for Developing Countries (Norfund).

Norwegian Church Aid welcomes a greater focus on growth and employment. In the coming years developing countries will need substantial investments in, amongst others, infrastructure and renewable energy. Notwithstanding this, while an increased channeling of aid through DFIs has the potential to promote development, lessons from previous attempts have by and large not been encouraging. Investments, nor growth, do necessarily translate into better lives for the poor. Sometimes their lives are even turned to the worse, through for example accumulation of debt, donor-driven projects designed to suit the private sector in the donor country first, tax-evation, corruption, environmental degradation, and lack of democratic governance.

DFIs are institutions with an explicit developmental mandate and have thus a responsibility to, not only avoid doing harm, but also demonstrate a positive developmental outcome. Their rationale is to be additional in the sense that should make investments with high development impact that the private sector would not otherwise do.

The objective of this study is to assess how the DFIs themselves measure their developmental impact. It raises important questions regarding both the methodologies and indicators used by the DFIs and the extent to which the DFIs are accountable to their own measurement systems and the communities that are affected by their investments. The study also shows that there are differences between the various DFIs, with some providing examples of best practices that can be replicated by others. It concludes by suggesting additional criteria for an improved measurement system.

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NOTES

EXECUTIVE SUMMARY

This report reviews current development impact evaluation systems in European development finance institutions (DFIs). It concludes that some of these institutions have clearly reformed their systems recently, are giving a higher priority to development impact, and that this is illustrated in the increasing amount of data they are collecting. CDC and Norfund now have extensive systems of social and environmental reporting. However, there are problems remaining in terms of what the data tells us about development impact, particularly how much change can be attributed to the contribution of the development finance institutions. In current systems the numbers are complex, their significance is opaque and the influence that the results have on actual investment decision-making is unclear.

In light of this review we argue that the DFIs should introduce more precise indicators on investment domicile, incorporating a preference for onshore domicile; on the investment vehicle (broadly funds, firms, SMEs, MFIs), including a ceiling on management fees and enduser interest rates; an influence measure, to mandate change either by using conditionality on disbursements or government policy, and to particularly address the problem of influence in intermediated investments; a target sector indicator, with a preference for supplyconstrained sectors with proven developmental impact; and an employment process indicator, to ensure trade union recognition and workers' rights.

There is also a need for a pollution management indicator to ensure extra-territorial compliance with EU environmental law in DFI projects, and reform of the corporate governance indicators to benchmark them with relevant international standards, which would also positively impact on development.

We argue that indicators whose line of causality to normative outcomes is unclear should be removed because of their weak substantiation in research. This means that indicators on headcount employment, tax paid and currency effects are flawed. These should be dropped or redesigned as comparative indicators to consider displacement effects (for employment), business models and counterfactual cases (for tax), and country-by-country accounting with details of intrafirm transfer pricing (to monitor currency effects).

In terms of the systems as a whole there is a need for wider public participation. In particular, democratic accountability and consideration of the political economy of development would be served better by an ex ante planning and consultation process which should be mandatory for large, risky or contentious investments.

Despite commendable recent reform, development impact assessments tend to begin once the key decisions, on who, how and where investments will be made, have already been determined. The DFIs, private equity funds and commercial bank intermediaries are largely 'black boxes' into which the public cannot see, and decisions made within the supply institutions are not clearly influenced by the data provided by development impact evaluation systems. Improvements to the business and investment model (which is critical to development effects) would require government intervention, and can be only partly influenced by improved development impact assessment systems.

0.0 INTRODUCTION[1]

Aid for social welfare tends to go to NGOs, governments and challenge funds for companies. But there is another form of aid which is less well known, and that is money which goes to the 'private sector', channelled through development finance institutions (DFIs) which are mostly owned by governments. These DFIs then lend this government money[2] to private equity funds and firms (and to a much lesser extent, governments) in developing countries in order to encourage growth and development. These monies, which go directly to the private sector, are assumed to carry welfare enhancing effects, if not to the same extent as the direct aid to social welfare, then at least as much in indirect effects through growth and employment. The argument goes that public investments to companies can contribute to enhanced wellbeing at a scale that social welfare transfers can't accomplish, through a growing economy (see Kingombe, C., I. Massa and D.W. te Velde, 2011; Thornley et al, 2010; Sunil et al, 2011). This review contributes to this debate by taking a closer look at how DFIs choose which companies to invest in, how they expect development to happen, and how they measure whether it has occurred.

The nature of current globalisation and financialisation in the world economy is the context in which interventions in support of 'private sector development' must be made, and DFIs follow market practices, managing their funds using complex financial intermediaries who are predominantly domiciled in tax havens or secrecy jurisdictions[3]. The harmful structures afforded by domicile in a secrecy jurisdiction are secrecy, tax avoidance and the differential treatment of non-nationals. Another consequence of companies' use of tax havens is that the fiscal revenue available to developing countries is reduced, inequality often rises, and this support for the flight of wealth offshore can also undermine the social contracts which (through the support of established but small elite classes) underpin democratization (Oxfam, 2000; NOU, 2009; Bracking, 2010; cf. Chua, 2009). Given that these problems associated with how DFIs currently do their work are found in the very structure of the modern economy, how much contribution do development finance institutions make by investing in the private sector? Can they do more? This report contributes to this debate by analysing how DFIs themselves judge the effects of their investments – both beneficial and harmful. To do this, we examine DFIs' own development impact documentation and processes.

The challenge is, how do you achieve public good and 'development' in the current global market? And, more specifically, how do you use DFI investments in a transformative way to try and improve the markets' effects on the livelihoods of the poor? This latter could cause substantial improvements in well-being, if 'smart' policy by government owners (Owners) can guide these institutions in the right direction.

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[1] Norwegian Church Aid will make possible comments or additional information from the institutions who have contributed to this study available along with the report at www.nca.no. For an extended list of contributors, see page 2.

[2] Or recycled earnings from original government grants and loans received at an earlier date.

[3] There is a debate about terminology, and common terms in use – tax haven, secrecy jurisdiction, and offshore financial centres - have their own etymology and policy path dependence. Following the NOU Report (2009) this report uses 'secrecy jurisdictions'.

0.1 PRIVATE SECTOR DEVELOPMENT

Currently, private sector development interventions are of two policy types: 1) interventions to make the supply of investment to the market larger to exploit its potentials further, with clever targeting enhancing this. As long as the DFI picks a clever entrepreneur or company (as they invariably claim to do), development and the pursuit of profit can be viewed as synonymous; and 2) interventions to correct market failures, of a different type to 'profit-making' investments per se, with clear developmental impact, including impact in social terms. This paper takes as its starting point that PSD should be of this second type, needing to prove both its developmental worth as something more than just an enlargement of the normal investment pool and its particular positive impact on poor people. This position is shared by some DFIs.

PSD interventions are of four basic types:

1. Direct, project or firm based: the provision of equity or loans to companies, including to private equity funds. DFIs and multilateral development banks (MDBs) choose where the money goes – either a direct investment to one company which then uses it; or an indirect or intermediated investment to a fund who then, in turn, invest it in another firm.

2. Regulatory Concessions, treaty exemptions and trade largesse, import or export tariff and tax concessions, support for start-ups or specific territorial zones, such as export processing zones.

3. Indirect, or market architecture based: improvements to soft infrastructure, efficiency of banking, tax, import export, information, currency stability, 'beyond the firm' conditions (principally in governance and carried out by government).

4. Harnessing the private sector: catalysing change in pre-existing corporate structures through influencing change in Economic, Social, and Governance (ESG) and Corporate Social Responsibility (CSR) policies.

The second and third types of PSD intervention are not the direct subject of this report (but see Kingombe, C., I. Massa and D.W. te Velde 2011) since they are related to macro economic and trade policy and are principally carried out by other government agents and Ministries, rather than DFIs. Type 1 interventions are the principle subject of this report, in that these constitute the day-to-day work of DFIs. Types 4 is different to the others in that the principle actor is the private firm itself, but the DFIs still have a critical role, or want to have, in influencing the behaviour of the company to act more developmentally (see 'impact investing' below).

Here we concentrate on aspects of types 1 and 4, to establish how the DFIs 'do development' and, on the other hand, how they understand and measure developmental impact. Since the choice of measurement indicator has an effect on how investments are done – as evaluation results are fed back to influence new investment choices – it is important to look at development evaluation tools and their design assumptions, to see how far these are built from evidence that what is being measured is actually apposite to change. In other words, better PSD relies on better measurement tools, but also on questioning the underlying research and assumptions which shape the design of impact evaluation frameworks. For example, it is common for DFIs to measure how many farmers have been reached by a private investment project but not the change in income for those farmers (Sinha et al, 2011, 4). It is assumed that involvement will automatically lead to enhanced well-being, but this would actually depend on the effect on productivity and incomes, which is not measured.

The recent upsurge in interest in PSD, sometimes called the 'private sector turn', has been concentrated in the macro-economic field of exploring growth. This research is not, however, particularly useful to the public and other stakeholders who need to know about how choices made in DFIs cause different types of environmental, social and economic results. How can the wider public influence the behaviour and choices made by DFIs? This report will not assess the efficiency of development finance in relation to growth, or wider private sector development concerns such as market infrastructure, but will focus entirely on the current measures used by development finance institutions to evaluate their development impact. It will suggest improved indicators to empower people and broaden the vision and scope of private sector development to target wealth and wellbeing impacts more effectively[4].

The first section of this report reviews the development impact evaluation systems currently in use by the 15 DFIs that are members of the European Development Finance Institutions (EDFI) association plus the IFC, with particular reference to Norfund, FMO, DEG, CDC and Swedfund. The review includes DEG's Corporate-Policy Project Rating (GPR) system and IFC's Development Objectives Tracking System (DOTS), and current economic, social, and governance (ESG) practice instruments in the remaining EDFI partners that

responded to our survey tool. We review this first by DFI and then describe further the properties of the main development impact evaluation systems. Section 2 discuses the 'fit-for-purpose' properties of these latter and the presence or absence of criteria. We cross reference the various design features of the development impact evaluation systems with the scientific challenges of attributing impact to particular interventions and investments, that is, the challenge of proving that cause x produced effect y. In the second part of section 2 we explore how far research supports the most commonly used indicators of development outcome – increased employment, tax paid, or the net currency effect – in terms of their being consistently associated with positive impact.

Section 3 gives improvements that can be made in development impact evaluation, starting with new criteria which should be included, because they are evidence-based and supported with research. In articular, we suggest five new indicators: investment domicile, incorporating a preference for onshore domicile; investment vehicle (commercial banks, SMEs, private equity funds) and a ceiling on management fees and end-user interest rates; influence measure, either in a conditional loan or equity investment; target sector, with a preference for supply constrained sectors with proven developmental impact; and employment quality, to insist on labour standards. We suggest that headcount employment and currency effects be dropped in their current forms, and tax paid be benchmarked.

The second part of section 3 argues that not only can improvements in the 'science' of evaluation be made, but that the procedures themselves should also rest on public planning and consultation. At present, it is not just that DFIs struggle with mathematical problems of attribution and aggregation (i.e. what factors are actually causing development), but also that when they assess impact, this will inevitably be viewed differently by different people. In other words, there is not a 'right answer' to some investment decisions that can easily be evidenced in fact, but a choice to be made about the type of society we wish to build. For example, some people view inequality as a problem for social justice, others as an important stimulant of entrepreneurship. We suggest that an improved developmental evaluation would not just rely on evidence but also involve people in a democratic way, so that choices are made transparently. All stakeholders, including the DFIs themselves, private investors, workers and communities, should be represented in a planning process for major DFI investments, since this is the democratic way of deciding when the 'science' is not absolutely clear. This consultation process should result in clear project standards.

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[4] *This work partly follows from Bracking et al (2010) on the likely consequences and alternatives of DFIs being prevented from using secrecy jurisdictions/tax havens, which noted the lack of systematic evaluation of development impact, both in relation to domicile and also more generally, and the Norwegian Government appointed Independent Government Commission on Tax Havens and Development, particularly as it referred to the investment activities of Norfund –the Norwegian Investment Fund for Developing Countries (NOU 2009:19).*

1.0 RESEARCH QUESTION 1:

In what ways, and using what tools and systems, do development finance institutions measure the developmental impact of their work?

In order to answer question 1, information was sought specifically on the decision-making processes before and after an investment is made, including the role of owner institutions and fund managers, and development indicators and assessment frameworks in use. We wrote to 15 EDFI members, and five fully completed our survey – FMO, CDC (and an interview), Norfund, SOFID, and IFU/IØ. A further three replied, but did not return the survey instrument – Finnfund, Swedfund, and OeEB. Information included in Table 1 (Annex 3) on the remaining seven is solely reliant on secondary sources where available[5]. No reporting documents were publicly accessible for three (also non-responding) institutions (SIFEM, SIMEST, and BMI-SBI).

There appear to be some important variations as to what constitutes 'assessment' and 'development', as well as in how DFIs balance the interests of their home country and the target investment country, and between the private sector and their public mandate. At Annex 1 is a copy of the e-mail survey questions that were circulated to members of the EDFI. Questions targeted the decision-making process from the moment a potential investment is identified through to the exit point of the investment, asking who, when and how decisions are being made about impact.

[5] *For these seven institutions, information was not detailed beyond the table summary, with the exception of DEG, due to its importance with regard to the standards it sets for other DFIs.*

1.1 SURVEY RESPONDENTS' DEVELOPMENT IMPACT EVALUATION SYSTEMS

There are two types of developmental impact processes in use: ex ante is used initially to select an investment based on the desirability of the target firm's financial situation and development effects, or conversely, as a tool to exclude investments that do not meet those criteria. Second, an ex post evaluation system follows and assesses the impacts of investments that were made and allows for feedback and rectifying action. Some DFIs use the ex ante evaluation to set monitoring targets and measures for the life of the investment [see Section 2]. Our survey thus asked DFIs about both types and about who, and how, investments are made.

1.1.1 CDC GROUP (UK)

CDC's development outcomes are measured through 'performance indicators' across four areas: Financial Performance, Economic Performance, ESG Performance, and Private Sector Development. CDC detailed some indicators in its annual Development Review 2009 and updated the Toolkit on ESG for Fund Managers in the same year. CDC uses the International Finance Corporation's Development Outcomes Tracking System (DOTS), has a separate evaluation system for mid-point and final evaluations, and uses a social and environmental impact assessment (SEIA) where required (as indicated by the ESG Toolkit). CDC receives ESG reports from each of its fund managers annually.

CDC carry out ex ante development assessment using the due diligence questionnaire, the screening process, and in the investment paper, where expected impact and benefits are also listed (Qu1). CDC conducts evaluations at mid-point. The ex post development impact evaluations were started in 2009, and in 2010 CDC committed to at least half of these being done by an independent, external consultant. Fund Managers compile ESG reports for CDC, covering 'all their portfolio companies' held for at least one year. Fund monitoring meetings take place internally twice a year, attended by the investment team, finance, the ESG team and senior management. Some portfolio companies are visited, in particular those that 'focus on high risk assets', and frequency depends on 'ESG risk level, exposure/stake, success cases or problem cases, etc.' CDC told us that they have recently strengthened the process for deciding which companies to visit, with a "target to visit all high risk assets (i.e. portfolio companies) that are possible to visit, once every three years. That visit will include a meeting with the relevant fund manager to understand how they are managing the risk and to encourage improvements if necessary" (Comments by e-mail, 25th May 2011). This conforms to IFC's performance standards.

Other evaluation and review activities to raise development impact are workshops for fund managers (eight international pro-bono workshops took place in 2010), including those with whom they do not invest. CDC stated in interview that a key component of where they expected additionality to come from was their influence on Fund Managers, since by changing their views and behaviour they could direct a greater volume of funds than by investing merely CDC's own in a developmental manner (similar to the influencing idea in the Impact Investing strategy below). Of their current success in this, they summarised that while some Fund Managers had little interest in impact but nonetheless saw it as mandatory, others could "be won over by understanding how ESG makes good business sense and would therefore be more likely to implement good practices across their whole portfolio and after CDC is no longer invested with them" (Interview and correspondence, 25th May 2011). This is important as a long run indicator of impact as behaviour change is replicated in future funds.

There is also an Investment Code or 'substantially similar agreement', which the fund manager and portfolio company sign, which contains 'inherent obligations to monitor compliance with the principles and ethical guidelines stated therein' (Qu 3). Following the signing of the Investment Agreement between CDC and a PE Fund there are thus: 'Site visits (depending on need/risk/synergies with workshops or other visits), formal evaluations, annual ESG reports, formal serious incidents reports (for format see ESG Toolkit), annual/bi-annual/quarterly fund reports, GP training workshops in 2010/11' (Qu 6). In terms of individual investee companies, Funds report on each, ranging in quality from improvements in reporting and performance to, 'in the best cases include ESG, community outreach/impact and other achievements' (Qu 7). However, private equity fund managers do not always pass on ex ante impact reports on investee companies to CDC, depending on the kind of investment and size or, 'whether it is a micro-finance institution, an SME fund or more regular fund with a target of 8-12 portfolio companies. For the former, deals take place and assessments/discussion of development impact take place ex-post facto.'

The investment committee reviews a potential investment and, 'can approve it for further, more detailed due diligence.' Subsequently, if it is deemed, 'suitable, it is recommended to CDC's Board of independent directors for approval . . . [who] then consider its merits and potential development impact and sign it off as suitable, or not, for investment by CDC.' However: '[o]nce CDC is invested in a fund, it is the fund manager and the investee company who decide whether an investment is appropriate. The fund manager is legally obliged to ensure that investments made meet CDC's investment code.' Reasons given for not going ahead with an investment include '[those in] the Exclusion list, geographical fit (. . . Low Income Countries), lack of development impact, financial reasons.' Thus compliance with the Code is self-regulated by fund managers.

CDC claim that the 'whole point' of assessment is to inform improvements in, 'current and future work', done through the sequence of meetings and processes described above. They also make reference to the diversity and specificity of contexts where investments have been made. This makes assessment findings only 'to some degree' transferable. Some uniformity of assessments is, however, allowed for in that CDC requires the use of a specific impact assessment system by fund managers (see toolkit), and now also advises a standard for investee companies. The CDC's most recent Investment Code has mandated fund managers to collect information on ESG performance and certain development indicators from their portfolio companies, whereas before, reporting on ESG indicators – what form and how often – was decided between them.

Regarding indicators, CDC lists the following according to performance area:

Financial Performance	Economic Performance	Environment, Social, and Governance	Private Sector Development
• Net IRR of funds versus investment targets • IRR for each exit	• Employment • Taxes paid • EBITDA and turnover (increase over time) • SMEs and low income reach (if relevant)	• ESG issues and improvements over time • Development outlays (if available) • Environmental products/services (if relevant)	• Third party capital • Local capacity building • Enhancements to sectors and benefits for consumers e.g., increase in telecom penetration, new infrastructure, increased access to power and financial services

Source: CDC, Development Review, 2009: 23. IRR: internal rate of return; EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

The official position on secrecy jurisdictions/OFCs is said to be forthcoming, through the website and the 2011 Annual Review's section on transparency. The owner's role (DFID) in monitoring investment is arms'-length.

1.1.2 FMO (THE NETHERLANDS)

FMO has developed its own system that closely follows IFC's toolkit and explicitly refers users to IFC's Performance Standards. In 2009 it introduced its own Development Effectiveness Framework, 'operationalised by means of a project scorecard', along with a new, downloadable MFI Sustainability Guidance e-tool. The Sustainability Policy is said to be forthcoming. Summarised by FMO: 'Apart from environmental, social impact and governance, Economic Development Impact is assessed, as well as the way in which FMO plays its role as a DFI in relation to the project (among others: being additional to commercial financiers, being catalytic).'

For the ex ante assessments, investment staff members assess the economic development impact while Environmental and Social specialists produce an ESG report of the risks associated with the projects. These are reviewed by the Investment and Mission Review Committee (IMR), which plays an advisory role to the Investment Committee/Management Board. It is fair to assume that the latter signs off on investments. Based on these, action plans are drawn, 'for further ESG performance improvements over time' (correspondence), tracked through the Sustainability Tracking System, while general economic and financial monitoring takes place with the help of quantitative indicators. Finally, the same team at FMO conducts ex post evaluations on a sample of investments upon exit, based on annual reviews, with the aid of the score card. Every five years, IMR's Evaluation Unit undertakes project evaluations. Lessons learned are introduced in a database, to be used in due diligence processes for new investments. Evaluations of overall FMO activities and FMO-managed government funds are conducted by consultants every five years as well.

It is considered, 'against good governance practice' (Qu 11) for fund managers to pass development impact reports to FMO to review prior to making an investment. Compliance is through, 'assurance that funds invest in accordance with agreed investment criteria, and that they have an adequate environmental and social management system in place' (Qu 11, emphasis added). After the decision to invest, FMO is seeking to have, 'fund managers report impact indicators (taxes paid, number of persons employed) on their portfolio of investees', which could be an indication that this does not happen yet on a regular and systematic basis. No specific numbers of projects which are turned down are provided since they do not keep statistics on this, but it is commented that this can happen for 'all sorts of reasons' and at all stages of the process. FMO does not require Fund managers, direct investment company managers, or underlying investee companies of the private equity fund to have any specific system for development impact assessment.

FMO uses IFC's Performance Standards indicators as a starting point, which include, 'outcome and outreach indicators' that are mostly similar across their investments in financial institutions, private equity funds, and direct investments, but a few are sector-specific, such as for energy, housing and other infrastructure. They fall generally in two categories: economic impact on financiers (of company/funds) and economic impact on other stakeholders, and while they are given points from 1 to 6 in the ex ante assessment, they are not weighted during monitoring exercises. Typical indicators in the monitoring stage are: the number of employees in the company, the contribution to government revenues, and the impact on balance-of-payments. As with IFC's system, the level of risk of a project will determine ESG procedures and scoring. Individual evaluation reports are not publically available but an overall annual evaluation is posted on the website. FMO in its entirety is externally reviewed every five years.

1.1.3 IFU/IØ (DENMARK)

IFU has overall criteria which regulate its investments regarding privileged countries, sectors, partners, and unacceptable implementation. Then, internally, IFU/IØ has been using its own system of indicators since 2003, which was developed with owner institution DANIDA, with an update expected in 2011/2012. Ex ante assessment is conducted by the investment team and forwarded on to the Management/Board of Directors. The same team produces ex post evaluations upon exit from investments, and lessons learned are condensed in a presentation made to the board, including a section on how to apply them in future investments. During the investment process, '[a]ll investments are requested annually to report various development impact indicators', and companies' management teams produce CSR Status reports for review by the respective board of directors. These are subsequently submitted to IFU, 'with an action plan for issues needing attention'. Due diligence and CSR reviews are prepared using the UN Global Compact Self-Assessment tool (see section 1.3.2). IFU participated in the tool's development and signed up to the Global Compact in 2008, having sent in two COPs (Communication of Progress). Regarding the evaluating party, 'CSR country reviews are done by external consultants and the other reviews are done in-house'.

Development impact features as one of the four areas covered in IFU/IØ's assessment system and carries a weight of 50% in projects' success criteria. The other three are: funds additionality (20%), sustainability and profitability (20%) and operational efficiency and effectiveness (10%). Regarding the development impact area, points are attributed across four subsets according to the expected level of a projects' contribution, namely: 1) additionality of the investment to the host country, 2) employment impacts, 3) transfer of knowledge, and 4) CSR issues. Generally, a maximum of 5 points per item can be attributed, although some items can collect fewer points. For instance, for 'employment impacts', if the number of direct employees per invested DKK millions is >2, a score of 5 points is given, with 3 points for 1-2, and 1 point for <1 direct employees; however, within 'CSR issues', even a project representing environmental investment in the top percentile will only accrue 3 points. In addition to the 'operational success criteria', a risk profile is also attached to a project's case.

1.1.4 NORFUND (NORWAY)

Norfund has its own assessment system based on generic indicators of development impact, and then sector-specific indicators for four separate areas: financial institutions, SME funds, industrial partnerships, and renewable energy.

Norfund does not conduct ex ante assessment of all potential investments, but, 'use the overall investment strategy to guide toward the investments likely to have the greatest development effects.' Apparently because of the strict strategy, an overwhelming majority of all investment proposals are rejected, either by Norfund staff in initial screening processes or turned down by Norfund's Investment Committee (Qu. 16).

Norfund selects investment sectors and geographical areas – financial sector, renewable energy, agribusiness in Africa, and SME Funds, and to countries below a threshold of GDP – because it views these as having the highest developmental impact, also viewed in relation to Norfund's own profile and expertise. As ex post assessment, data is collected from all investments annually for both generic indicators (e.g. jobs, female employees, tax contributions) and then some specific indicators for different types of investment. They use some of the DOTS indicators and the IFC Performance Standards, but do not set targets or track progress to targets, instead preferring to measure the, 'performance of our entire portfolio annually' (Qu 15). Also, post-exit assessments of development effects are made referring to the original plans. ESG is included in the development impact assessment, but also separately, and third-party Environmental Impact assessment (EIAs) and Social Impact Assessments (SIAs) are required in all high risk projects. Norfund also report that they employ a Grant Facility to, 'strengthen the development effects from the investments, by financing specific measures related to, but not a part of the specific investment, for example in the area of ESG, labour relations, education and training programmes, out-growers' schemes, health measures and local community development.' (Qu 0). This follows practice in other DFIs, such as DEG, where technical assistance is advised for certain investments, or in CDC, where management training is provided. CDC and FMO both commented that Fund Managers often want to carry out impact assessment but do not have the necessary skills.

Norfund summarises that their annual reporting involves collecting and aggregating data from all their investments, and that provision of the development information is a legal obligation of the companies,

using the required template. The results of the development impact assessment are reported to the public in an aggregated form, and then separately for the four investment areas but not by Individual company, due to confidentiality reasons (Qu 22). The investment companies are also required to provide ESG information, although this is a self-reporting system, without, 'external verification of the results.' However, Norfund also reported to us that they are conducting an in-depth development impact study annually of one of the direct investments, using external consultants, with the promising use of different methodologies, with two completed so far. One such study seems to have been completed, 'using a strict quantitative approach with baseline data from the area in which the company will be established, baseline information collected from a control area', [with another more qualitative to follow] 'in 4-5 years time.' By combining these methodologies to a single investment one could expect a superior evaluation, even though cost and logistics might mean that few could be realistically undertaken.

Norfund's decision-making process is summarised thus for both direct investments and financial intermediaries:

> Initial screening is done by an investment manager; clearance in principal is given by the Investment Committee; final recommendation is given by the Investment Committee; final approval ('signing off') is formally given by Norfund's Managing Director and/or the Board of Directors. In the process of reaching final approval/deciding to invest in a company several parties evaluate the investment, including (but not limited to) the assumed development effects. (Qu 5)

The portfolio companies of the financial intermediary (often an offshore private equity fund) are the principal responsibility of the Fund Manager, who has to represent the development impact case for the Fund investment as a whole, as well as reporting on specific data for the underlying portfolio companies. Norfund does however participate in Advisory Committees, Technical Assistance Committees, and fund governing bodies, and, 'actively monitors its funds (through reports, visits to the fund manager and its portfolio companies, etc.)' (Qu 6, 7). On funds, Norfund adds that:

'[I]n most cases, Norfund is represented in the fund's governing or advisory bodies to oversee that investments are made in accordance with the mandate.' However, it is hard to establish how effective Norfund's oversight of funds is in practice, given low staffing relative to their high number.

Norfund is currently the only DFI to report having a policy on secrecy jurisdictions:

> Use of third country domiciles should be used carefully. Generally, it is preferred that fund investments and direct investments are domiciled in the investee country or one of the investee countries when a fund covers more than one country. Currently, Norfund should avoid doing investments in jurisdictions outside the OECD or jurisdictions with which Norway has not entered into a tax information exchange agreement. (Qu. 20)

Norfund needs commending for leading on this, however, use of terms such as 'used carefully' or 'generally' add some imprecision to this statement. Because of these, the policy is subject to the full discretion of Norfund, since an outsider would not be able to judge against these terms. A more explicit policy on the contexts and terms of operationalising this preference against secrecy jurisdictions, as the negative development evidence against them demands, would be preferable, on the lines of Bracking et al (2010; 33).

Norfund clearly makes a significant effort to target those communities most in need of capital for development and their country GDP ceilings reflect this. However, despite the advantages of this approach, there is the risk that a poor country may house lucrative investment opportunities, but that these will still have little development impact. Indeed, in mineral and oil-exporting countries, islands of such investments are likely (see Ferguson, 2006). Individual company based reporting of impact could address this problem, and perhaps does, but unfortunately these reports are not published due to confidentiality issues. These are due to commercial sensitivity, although the scope for Norfund to reduce the level of confidentiality agreements with co-investors in the public interest is not clear and should be explored.

1.1.5 SOFID (PORTUGAL)

SOFID reports development impacts, including social and environmental aspects, to be a part of the risk analysis performed for all their projects. However, no further indications about the system were provided. Ex ante assessments are performed by the Credit Risk Assessment unit together with the Executive Committee, whereas the commercial unit also contributes to ex post evaluations. SOFID reported that indicators on risk and impact analyses, 'include concerns on job creation, skills transfer, environmental impact, [and] moving towards a formal economy, etc.' (Qu 1). The Owner institution is the Ministry of Finance, although the president of the Portuguese development agency, IPAD, is vice president of SOFID's Strategic Council, an advisory body, and IPAD defines privileged investment target countries.

1.2 DEVELOPMENT IMPACT IN OTHER EDFI MEMBERS

We also carried out a desk study of development impact procedures in other EDFI members who did not respond directly to our survey instrument. Emphasis on particular DFIs here is a reflection of the quality of information publicly available[6].

[6] Bio, BMI-SBI, CODIFES, DEG, PROPARCO, SIFEM, and SIMEST did not respond to our query, and two of these do not post reports.

1.2.1 DEG (GERMANY)

DEG's assessment tool, Corporate Policy Project Rating (GPR), was introduced in 2002 and it has since been adopted by some DFIs to different degrees, namely by Bio (Belgium), COFIDES (Spain), OeEB (Austria). Proparco (France), and SIFEM (Switzerland), DEG also co-authored, with the European Investment Bank and some DFIs, the Development Indicators Library (DILs), although evidence of its use by DFIs could not be confirmed in this study.

GPR consists of an index point system used throughout the project cycle, i.e. ex ante, monitoring, and ex post. DEG performs two ex ante assessments with GPR, one as part of initial clearing process, while the second takes place as part of due diligence and, 'may require a specific survey and/or discussions with clients', leading to rating by the project manager. The Department of Economics/Development Policy then checks the information and drafts the corresponding 'corporate-policy appraisal', which is released. DEG also reports its use of GPR as an ex post tool, both during monitoring, every two years for all portfolio companies (Portfolio Management unit), and upon exit. Regarding the monitoring process, data, mostly quantitative, is derived from financial statements and business reports, entered into a database and analysed for what appears to be ranking purposes. Qualitative data such as 'training and qualification, market and structural effects, social benefits,' can be gathered from on-site visits, although it is not clear if it can be collected through any other means, or what proportion of project managers visit the sites[7].

Impacts are assessed across four main areas or 'benchmarks,' which are attributed a number of points, as follows: 1) long-term profitability (150 points); 2) development effects/ sustainability (150 points); 3) strategic role of DEG (100 points); and 4) return on equity of DEG (150 points). There is a strong financial focus since areas 1 and 4 are exclusively financial in nature, with 50% of the total number of possible points. The development effects and sustainability area includes twelve assessment fields for portfolio companies, nine for infrastructure projects, and eight for financial sector/ private equity funds. The benchmark Strategic Role of DEG focuses on additionality and also includes promotion of ESG and CSR. Moreover, six quality subcategories (EPOL) were established for benchmark 2 for rating purposes, but no further information is provided[8].

According to the same document, based on the number of points achieved, projects are scored into one of six categories, from 'very good' (1) to 'obviously insufficient' (6). In so far as it is the total, final score that matters, the process appears to be qualitatively compromised overall: in other words, it seems that a project could do exceptionally badly in the development impact, or environmental and social area, but high profitability

could offset this in the aggregation, as long as some minimum scores are secured. For example, a minimum required score of 27% for 'Development effects/ sustainability' is slightly lower than the minimum required for 'Long-term profitability of the project' (30%). For the former, this corresponds to merely 40 points out of 150, across 12 indicators[9]. Insofar as the 'development effects' are bundled together with 'sustainability', it is conceivable that an investment would score points from areas 2, 3, and 8, for instance, and none for more socially or environmentally-minded areas, and still gather the minimum 40 points.

Furthermore, DEG links development impacts explicitly with the MDGs, despite the stated recognition that they are difficult to measure in macro-economic terms. Given an attribution problem (see section 2), the link to MDGs is assessed using plausibility checks (The Corporate-Policy Project Rating of DEG: 9; emphasis added). Using this method, DEG specifies ways in which their investments (may) contribute to achieve MDG 1, 2, 6-8. Nevertheless, it appears that the absence of any single indicator would not prevent the project from being approved. In fact, the management board can, exceptionally, still approve projects in GPR groups 5 and 6, the least impressive scores (p. 3). GPR scores are not publicly available and only aggregated rating results are included in annual reports. Aggregation across projects is how impacts such as public revenue are reported. Grettve (2007) observes a lack of full internal ex post evaluation with very selective publication of results on individual investments, and that '[t]he main emphasis is . . . on support to and quality control of GPR as a self-evaluation instrument' (emphasis added).

Overall, companies are incentivised to perform well, including through a bonus system (Grettve, 2007) but no formal or prescriptive mechanism effectively obliges them to do so. Monitoring and evaluation, as described above, does not appear to have a formal feedback mechanism beyond the incorporation of lessons learned, nor is there any sanction/reward for ignoring/following the rules.

[7] DEG subsequently communicated that 'lessons learnt through project comparisons/on the portfolio level' are taken through a 'formal feedback process to DEG's management team and spread into the departments as well as used for the strategic process'. DEG also tries to offset the preponderance of financial aspects in its assessment practice [27 May 2011, email communication with Jan Rixen, EDFI]

[8] DEG has proposed "Beyond the project" impact as part of the evaluation exercise for the EFP portfolio [27 May 2011, email communication with Jan Rixen, EDFI].

[9] 1. Public revenue; 2. Value added; 3. Net currency effects; 4. Effects on employment; 5. Gender effects; 6. Training; 7. Transfer of technology and know-how; 8. Effects on markets; 9. Effects on infrastructure; 10. Social effects; 11. Environmental standards; 12. Effects on environment.

1.2.2 OEEB (AUSTRIA)

OeEB does advisory work and lends to banks and funds, and to projects/companies in the infrastructure sector (e.g. energy) often with other bilaterals and the IFC. This DFI declined to fill out the survey on the basis that they don't currently have any equity investments, although this contradicts EDFI (2009) and Dalberg (2010) who report that they have 47% of their portfolio in equity[10]. OeEB states on its website that it is, 'engaged only in projects where the counterparts are willing to abide by these [international environmental, social and labour standards] criteria. . . [and] aim to commit the project companies to this effect, by way of agreement, and review their implementation.' OeEB is 100% private and does not receive monies from the state[11].

[10] OeEB has since clarified that: 'The reported equity portfolio is for portfolio in microfinance funds. There we indeed signed shares making it an equity investment for us. However, these funds themselves do not invest equity in their investee companies (in this case: microfinance institutions), they provide debt-finance/ loans to them.' It further stated that its banking licence required 'banking secrecy' (email communication 26 May 2011).

[11] Except for its Advisory Services, which are publically funded (email communication 26 May 2011).

1.2.3 SWEDFUND (SWEDEN)

Information on Swedfund's procedures and indicators were collected from documents on their web site, in particular sustainability reports for 2009 and 2010.

Regarding ex ante assessment, Swedfund conducts an initial exercise which includes development impact and ESG, in addition to sector and country profiles, and a management and business plan. In the 2009 report, an

example estimate is given that for an average of 500 proposals, from which a selection receives an in-depth analysis, a screening is performed for about 25 investments, followed by a due diligence process comprising commercial, financial, and legal aspects, in addition to ESG and development impact. In the 2010 report, the initial assessment does not appear to consider the latter aspects, which are taken into account only after the in-depth analysis and screening. According to the 2009 report, the Board would make its decision for retaining about 15, and after negotiations, about 10 of these are accepted. Ex post assessment or monitoring covers financial and commercial information, ESG matters and development effects, which are summarised in annual reports and yearly sustainability and ESG reports.

It is not entirely clear what information investee companies and fund managers need to report back to Swedfund. For instance, while reports on financial returns are submitted on a quarterly basis, not all of Swedfund's portfolio companies reported tax data, and only 50% reported data on economic value generated by their activity (2010, 15). Also, although ESG audits include review of documentation, interviews, and visits to facilities, only three such assessments were conducted in 2010 (2010, 20). Swedfund's system, as is the case with other DFIs, seems to rely on an honour code that accepts on good faith the assurances of the companies that sign a code of conduct with them, especially with regard to ESG performance.

Nonetheless, PricewaterhouseCoopers conducted a review of Swedfund's portfolio investments' ESG standards, based on a questionnaire to fund managers that did not include field visits, according to which, 'about half of the funds included investments that would be considered high or medium risk from an ESG perspective' (2009: 36). The stakeholder survey carried out by Swedfund on the importance of reporting development impacts presents a mixed picture regarding economic and ESG performance (it is important to some investee companies but not to others). It also reveals how far removed the NGOs/civil society, local governments, and labour unions stand in relation to the dialogue with the 'inner circle' (2009,32), as the former were not consulted on the exercise.

As with CDC, Swedfund's performance indicators encompass four areas: financial performance, economic performance, ESG Performance, and Private Sector Development. In the 2009 report, the development impacts of direct investments and of investments in funds were treated separately but this was no longer the case in the 2010 report. The table below details the performance indicators per each main performance area.

Table 3: Swedfund development effect performance indicators

Financial Performance	Economic Performance	ESG Performance	Private Sector Performance
• Profitability for investee company (+ change over time) • Turnover for investee company (+ change over time) • Return to Swedfund (IRR)	• Value Added • Distributed value: wages, taxes, local suppliers, financiers • Employment (number of employees)	• Environmental improvements • Social improvements • Corporate Governance improvements	• Technology and knowledge transfer • Demonstration effects • Third party capital (info about Swedfund's co-investors) • Indirect employment (local suppliers & distributors) • Increase competition and/or private ownership. • Effects on export/local markets

Source: Swedfund (2010, 13)

In 2009, development indicators were also classified as direct and indirect, and distinguished from 'impacts', which are associated with the MDGs in Swedfund's overall framework of its contribution to equitable and sustainable development. This distinction was lessened in the 2010 report, although direct development effects remained associated with economic performance (2010, 15). In the distributed value listed for one half of the portfolio companies, it is worth noting that the payment to providers of capital was almost equal to employee wages and benefits – traditionally the main development impacts – and the operating costs totalled some 72% of the overall value, while taxes paid to the government amounted to only 1.3% of the total generated value. The distribution of values brings into focus who the principal beneficiaries of the investments are.

1.3 DESCRIPTION OF MAIN DEVELOPMENT IMPACT EVALUATION SYSTEMS

Several DFIs are in the process of updating their assessment systems or have done so recently. Of the 15 DFIs covered here, most measure development impact evaluation using three predominant systems, or hybrid forms inspired by them, namely, the IFC's (26.6%, or 4), the GPR (40%, or 6), the UN Global Compact Self-Assessment Tool (6%), while one states they have either another kind of system (SOFID) and another one reports that a systematic assessment is presently being developed (FINNFUND). Due to lack of information from the web sites or lack of response to the survey instrument, it was not possible to determine what type of system, if any, 13% of DFIs currently favour (BMI-SBI and SIMEST). However, development impacts were also incorporated within social responsibility (CSR) or environmental, social, and governance principles, independent of any specific system. Also, more often than not, they were a constitutive part of the 'due diligence' process. The systemic processes in common operation are summarised below.

1.3.1 THE CORPORATE POLICY PROJECT RATING (GPR) OF DEG

The GPR was initially summarised under section 1.2.1 above, as being made up of an index point system combining four benchmarks (summarised from DEG's Corporate-Policy Project Rating (GPR) (2011, 2):

1. The long-term profitability of the project: to check for the company's financial sustainability in order to guarantee other development effects in the long term.

2. Development effects/sustainability: specifically quantitative effects (government revenues, net currency effects, national income, employment effects) and qualitative parameters (technology and know-how transfer, qualification and advanced training, gender effects, market and structural effects, improvement of infrastructure, social effects, compliance with social and environmental standards, etc.) These can alter slightly depending on the sector.

3. The special role of DEG: to test the principle of additionality, i.e., to see if DEG 'actively mobilises additional funds from third parties for a project company (e.g. arranging a parallel financing as part of a finance package) or if DEG also acts as a consultant for the project company (project development, financial engineering).' (DEG, 2011, 2)

4. Return on equity of DEG: to assess the return on equity, since DEG's ability to invest in further companies depends on the profitability of current ones.

The GPR system also generates a graphical profile of the strengths and weaknesses of a project and compares this to the average sector profile in the DEG portfolio (DEG, 2011, 4). This system certainly has strengths, namely in the indicators it has in place, although as we saw above, it seems hard to 'fail', particularly since Board discretion in favour of investment can also be used, even when a low score (5 or 6) is recorded.

1.3.2 THE LIBRARY OF DEVELOPMENT INDICATORS

A group of DFIs worked together to create a library of core and optional development indicators (DI) that provide for common definitions and consistent tracking methods[13]. The initiative was designed to 1) support fund managers, who are not development economists generally, to track development effects; 2) to, '[H]armonize the IFI assessment of development effects of PEF and create synergy effects in multiple bottom line operations' and 3) to, '[C]reate data-bases with a fair degree of integrity as data points would be calculated according to a harmonized calculation methodology' (DEG, Library of Development Indicators for PEF). DIs are divided into two groups, core and optional indicators. The optional DIs are supposed to match the diversity of types of private equity funds, since a 'one size fits all' principle is not thought to be achievable. Core DI include IRR, employment, environment standards and labour standards, which 'should' be used, 'for all PEF transactions on an annual reporting basis' (ibid). However, there is margin for confusion insofar as some indicators seem to belong to both groups, as is the case for the environmental and social areas. Also, DFIs did not say that they used them when we asked directly, although we have no evidence on how far Fund managers use the tool. It is assumed that the tool is used by DEG.

[13] *Available from the Emerging Markets Private Equity Association (EMPEA) website.*

1.3.3 UN GLOBAL COMPACT

One DFI reported using the UN Global Compact Self-Assessment Tool to assess their investment: IFU (Denmark). This tool is an initiative of the UN Office of Global Compact (GC), which was launched in 1999 at the World Economic Forum in Davos. As a recent report on the Global Compact summarized aptly, it, 'has extended its activities beyond the four areas [of activity] (human rights, labour, environment and anti-corruption) of the ten principles into other fields such as financial markets, conflict prevention, peace-building and partnerships towards achieving the MDGs' (Fall and Zahran, 2010: 28). The Self Assessment Tool defines indicators in those four areas, for companies to check, if only on on a voluntary basis, if they are following the advocated principles.

1.3.4 IFC DOTS SYSTEM

The DOTS system is designed using and indexed to IFC's Performance Standards, and claims to have a cause and effect relationship linking the investments to the impacts they are to have – input to output to outcome to impact. For illustration purposes, this example is provided:

> A company may provide a loan (input) to a water utility to generate potable water (output) that enable[s] more families to have tap water in their houses (outcome) and over time, decreases the incidence of water-borne diseases in the community (impact). (IFC, 2011)

The DOTS system is discussed in section 2 as, jointly with the GPR, it enjoys the most support by DFIs. However, we conclude that it has many flawed indicators where the logic sequence is compromised.

1.3.5 IFC'S PLANNING AND FINANCIAL VALUATION MODEL FOR SUSTAINABLE INVESTMENTS

The IFC has introduced the Planning and Financial Valuation Model for Sustainable Investments in order to persuade managements that making sustainable investments adds to profitability. This is important here since risk assessment is used to decide what investments are possible in the screening process, before the development impact is considered. Managers are asked about a) direct value creation (i.e. positive cash flow) and b) indirect value (i.e. risk mitigation). It is designed to show that investing sustainably guarantees financial return, which would encourage them to make more investments with a higher developmental impact. The tool focuses on negative drivers as well as positive outcomes. For example, the way that risk is defined makes the environmental movements seem powerful in their ability to disrupt, since lawsuits and disruption are named as sustainability related risks, which would have a cost attached. Similarly, legal costs would be high in the case of an action over indigenous peoples' rights, environmental damage or corruption, particularly where legal systems were better. However, other wellbeing effects of investments, such as social cohesion, reputation, cultural heritage, protection of rights and so forth, are more difficult to value, such that they do not generally appear in risk frameworks at all, and are poorly included in this one.

There is an inherent difficulty in attaching a value to economic 'intangibles' and 'externalities', like these ones, such that they do not often influence investment decisions, despite their direct relationship to wellbeing. Or, put another way, the challenge might be to add a financial value to the developmental effects that we want to see in risk assessment frameworks, to make better investments possible. This could be done by attaching subsidies or tax concessions, but would require government intervention[14]. Alternatively, the relative weight of development impact assessment, through similar government direction, could be made to influence risk assessment more directly.

[14] Thanks to Fredrik Eriksson from Norad for the idea behind this paragraph, and for other comments on evaluation systems.

1.3.6 IMPACT INVESTING

Impact investing is the market where private capital, 'seeks financial return in markets with intentional and substantial social or environmental benefit' (Thornley et al (2011, 30), with the potential of 'leveraging capital on a significant scale' (ibid) in the service of enhanced wellbeing. It corresponds to a strategy for PSD type 4 above, rather than being an evaluation tool. In the impact investing model, government makes strategic interventions in capital markets, either to change (enhance) the amount of capital for investment (called 'supply development'); to change the terms of the transaction between sellers and buyers of capital ('directing capital'); or to increase the number or capacity of capital recipients ('demand development') (Thornley et al, 2011, 8; see also Simon and Barmeiser, 2010)[15]. Impact investing as a strategy describes a similar set of policies on a global scale to those used in private sector development in the international development field: both seek to steer private capital to benefit social and environmental welfare.

In terms of 'directing capital', governments could change the terms of market transactions – through 'taxes, subsidies, reporting requirements and intermediation' – to improve the performance of DFIs, implemented through their development impact frameworks. Up to now, the arms'-length regulation of EDFI members through Mission Statements and Investment Agreements has allowed a light form of self-regulation to prevail, which has only recently been subject to critique. However, development impact assessment could be used more explicitly to direct capital to where governments want it to go. It is interesting in this regard that mining, retail and leisure do not feature in the 8 areas outlined as good social impact investing sectors by these authors (2011, 22)[16] but do feature prominently in DFI portfolios. This strongly suggests that there is little justification for DFIs investing in mining retail and leisure, because there is no obvious capital supply constraint in these sectors, and mines are unlikely to have good development or environmental effects.

Thus impact investing encourages against sectors that do not offer an effective mechanism for creating social benefits (see Thornley et al, 2011: 16), and this informs our new sector indicator in section 3.

DFIs have a hybrid public/private identity, which means that they are one step removed from impact investing funds, and able to negotiate not just about the supply, directing and demand development of the market, but also about the terms of their own participation as a carrier of government subsidy. In other words, they have the potential power of influencing the way the impact investing market itself develops, in association with Owners.

[15] This has been developed in particular by Insight at Pacific Community Ventures, The Initiative for Responsible Investment at Harvard University, and also by the Centre for Global Development, in Washington , D.C.

[16] The eight impact areas are agriculture, housing and community facilities, financial services, education, health, environment, energy and water, drawing on the Global Impact Investing Network's (GIIN) Impact Reporting and Investment Standards (IRIS) project, and a study co-published by JP Morgan Social Finance, the Rockefeller Foundation and the GIIN (GP Morgan, 2010).

1.4 INITIAL FINDINGS

DFIs report on the environmental, social and sometimes governance effects, but generally only by verifying whether the objectives identified ex ante were observable ex post, such that success rates scored in percentage terms also reflect the level of ambition or challenge set in the original plan and ESG documentation. This is normally written after the commitment of funds in any case, which would tend to suggest that great ambition is not incentivized. Similarly, in the sustainable development approach of the IFC DOTS system and IFC-influenced Evaluation Cooperation Group (ECG), standard weights for various indicators are determined by the country context, so less is expected in certain places, which can be managed into a low expectation ESG assessment. In the contribution to development approach of DEG's GPR there is also a relativity involved in that projects are assessed relative to others already in the portfolio, which could give the impression of a positive trend despite a low baseline in some sectors (see also Sinha et al, 2011, 4). The ECG claims that its proxy indicators are commensurate with unproblematic outcomes, while the GPR has a greater number of qualitative indicators in the first instance. However, because of the reliance on proxies the scores are not singularly unidirectional, which is an additional problem beyond arbitrary assignments of weightings, values or judgments.

The lack of a single standard methodology for DFIs also means that there is not a single reference point or index of standards that could be easily referred to by external users. The same challenge has been remarked for MDBs, despite efforts to harmonize systems for over a decade. In order for an evaluation to have authority, the decisions on which system to use, which indicators to leave out or include, whether to publish it, and what benchmarks and standards to apply would need much more public input. At present, the DFIs have an enormous scope to deliver assessment results which they favour, should they choose to do so. Arguably, because the key decisions – who does it, when, how, for what purpose – remain, with a few exceptions, extremely opaque and the sole preserve of the DFIs, the current system lacks popular credibility. This is evidenced by the dearth of external publications that refer to evaluation results, with most NGOs preferring independent research and observation (key informant, UK, 14th April). Also, few DFIs carry out regular or systematic external audits of their development impact, either at the project or portfolio level, which is clearly an area where there is room for improvement.

The design of the evaluation frameworks is related to the knowledge that the DFIs want to produce, and there are issues of public interest which development impact evaluations currently do not cover. For example, issues of profitability (rather than rates of return), the distribution of benefits from DFI investments, Fund Managers' fees and overheads as a proportion of the net turnover of a fund, and more complex issues of tax distribution are not covered.

1.5 CONCLUSION

The current focus of measuring development impacts is at the project or investment level and has a predominant financial component. 'Beyond the firm effects' which, for example, would not just count jobs but would look at possible productivity increases, are not part of these frameworks. What we have, very broadly, are indicators of five basic types, which are variously aggregated to make tools and frameworks, and sometimes scores: 1) financial indicators of returns, normally using the Financial Internal Rate of Return (FIRR) measure; 2) economic indicators, usually Economic Internal Rate of Return (EIRR) (which adds in tax to the FIRR calculation), with the addition of various popular proxies such as employment and tax contributions, and currency effects; 3) social indicators including the number of women employed, community outreach, contributions to local education and health provision, and sometimes labour standards; 4) environmental measures, including some specific compliance issues under the industry-specific IFC DOTS system; and finally 5) political and cultural, including issues of heritage, which are the more recent additions to the composite frameworks, more as performance standards than indicators. These criteria are sometimes obligatory, sometimes optional and sometimes sector specific, although group 5 were mostly absent in the cases we examined. Consequently, the overall framework cannot then be aggregated as there are various scales in play, whether it is an answer that involves a number, or a yes/no, or qualitative text. Some indicators are benchmarked to external standards (generally IFC's), while others track only to a prior measurement of themselves, a before-and-after type of evaluation which assumes that causal effect can be attributable, at least in most part, to the implementation of the investment or project.

In sum, DFIs are collecting much data, which has varying degrees of relationship with development impact. Some criteria in use seem to be ambiguous or overly general, with the proxy assumptions behind them vague. Some DFIs clearly do not feel the need for transparency or public disclosure as much as others, which is related to their ambiguous status vis-à-vis both the public and the private sector. Arguably, whatever the merits and demerits of each evaluation tool, the overall impression of complexity and opacity are problems for outside users or those seeking information to ensure democratic accountability in the use of these publically-authored funds.

2.0 RESEARCH QUESTION 2:

How effective are the measurement tools in use?

There are three aspects of the quality of the development impact evaluation tools: 1) how far and how well does each indicator (proxy or direct) relate to research evidence of its efficacy? 2) Are indicators counted and aggregated together in a logical manner (see 2.2 below])? and 3) Do the systems as a whole serve the purpose intended of them? Do they serve development, and the public accountability of development? This third consideration will be addressed in Section 3, the first two here. The issue of quality however, exists in a trade-off with issues of cost and logistics. As a CDC officer charged with ESG commented, 'the world in which we invest is not a laboratory, we don't have laboratory conditions' (Interview, 11th April 2011). Thus our three considerations must be weighed against the practicalities of assessment. We start by looking at whether the most commonly used indicators, as described above – environment, employment, tax, and currency effects – are actually good ones.

2.1 IMPACT MEASUREMENT INDICATORS

The first and central problem with an evaluation system is the choice of indicators to use to proxy for the effect that is desired. A good indicator is a 'positive' indicator where the direction of travel is unambiguous, that is, more of something is always better, rather than sometimes being worse. If indicators are not positive, aggregation and unambiguous meaning is not possible. Also, the best indicators are those which mirror in a direct and uncontroversial fashion a unidirectional causal relationship between the investment and the impact. That is, one where what is being measured clearly causes what one wants the outcome and impact to be. An indicator should be accurately measurable, and linked to robust research on its logical relationship to the outcome (and purpose) which is desired. Also, a good indicator must conform to a number of academic and heuristic principles around the accuracy of its attribution to the effect observed (was it this or something else), contribution (how much of the change was this and not something else) and causal properties (have we missed another causal factor or 'missing variable'?)

2.1.1 ENVIRONMENT

At present DFIs only measure whether an environmental management system is in place and whether 'things are improving' against internally set targets. Also, the FMO scorecard and DEG's influential PRG offset bad environmental performance against good scores in other areas, such as financial return.
Many environmentalists argue that this is not good enough (see Counterbalance, 2009). At present the frameworks are too thin on benchmarking against international standards, particularly when this involves a mandatory obligation, or 'deal breaker' if the condition isn't met, such as on carbon emission targets.
Instead, EDFI members claim to conform to IFC's social performance standards which mandate procedures but not specific outcomes. In contentious areas like this, the DFIs could benefit from more prescriptive direction from political leaders on what is, and what is not ethically acceptable, and what they should and shouldn't measure and aim for.

2.1.2 EMPLOYMENT

The vast majority of poor people believe employment to be the single most important thing which could help them out of poverty, and quality employment is what they most want access to (Narayan, 2000). This gives employment creation an importance which DFIs quite rightly want to respond to. All the DFIs in this survey measured employment creation as one of their development impact indicators, and some, notably Norfund, had a number of supplementary questions concerning the quality of the jobs created in their Guidelines for Annual Social and Environmental Status Report. More specifically, section 6 Social and Environmental Competences and Management, on labour rights, and section 9 on Human Rights, which if fully implemented would amount to a high quality of employment experience, along with section 10 on Labour Rights. Norfund's main generic indicators template, applied to all projects, quantifies jobs created both directly and indirectly in FTE equivalents in Fund and direct investments, and asks for details on the number of women employed. Indirect employees are defined as people who depend on the company for more than 50 per cent of their livelihood. Overall, job creation, particularly of quality jobs with good pay and health and safety is a core area in which developmental impact could be accruing. In terms of measuring the quality of jobs created the Norfund system is the most extensive.

However, the problem of measurement here is that they are still measuring gross and not net job creation: that is, they are not considering how many of these created jobs are offset by jobs lost or displaced in competitor firms[17]. Although Norfund measure quality, which many DFIs do not, there is also the issue of how many of the jobs are of benefit to the poor (or to expatriates or the wealthy) (see also Sinha et al, 2010: 17): the pro-poor nature of jobs created is assumed and not proven (Sinha et al, 2010, 5). While all social classes have a right to work, if 'modern' ventures displace informal livelihoods or subsistence work – as has been well documented by the experience of the Galamsay in the Ghanaian gold fields, for example – the cost of change would be born disproportionately by the least able to bear it. In such circumstances community outreach is often offered as much to compensate as to 'develop', but is rarely a true compensation to lost independent livelihoods. It is difficult to find an indicator which could be readily calculated on net employment, but where an industry is being radically changed by a project – say from predominantly informal or outworker, to estate or industry based, particular attention should be paid to displacement effects.

Similarly, if the industry or site were entirely new one could expect that additional jobs would have a significant development impact. However, where an investment is made in a pre-existing firm, or in a competitive sector, or serves to fragment the job market (ironically partly through the imposition of standards that local firms find it impossible to replicate), the offsetting displacement or destruction of jobs could outweigh the jobs created. Highly productive jobs in agro industry for example, would likely reduce the need for the seasonal and casual labour on which the rural poor depend – but might not be a bad thing for the economy as a whole. Another example of a scenario which could involve profound displacement effects is investment in modern shopping malls. For example, the CDC funded an elite shopping mall in Lagos which generated a heated debate in this respect due to displacement effects in traditional markets, shops and the informal sector.

Until very recently most DFIs also made the error of counting all the employment in the investee companies, rather than a pro-rata figure for the actual proportion of their investment (Bracking et al 2010), but some have corrected this, including Norfund. However, another error remains in the assumption that any increase in the workforce in a period can be automatically attributed to an investment: it could equally be due to other factors, such as a rise in export prices. Also, job creation (or destruction) will depend on what the firm spends the investment on. Investments in machinery, for example, could mean a downsized workforce even if more productivity is recorded. Because of these problems we suggest that a process indicator should be added to the workers' rights section of development impact evaluation systems, and that the counting of gross 'new' jobs should be downgraded or abandoned as it is potentially misleading, despite its intuitive appeal [see new employment process indicator 3.2].

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[17] DEG states that newly created jobs and dismissed employees are netted in its calculation of employment created (E-mail, 29th May 2011). However, it is unclear whether this is an internal firm calculation or beyond the project calculation.

2.1.3 TAX

At present, impact assessments report a gross amount of tax paid to government, which includes corporation tax, sales tax and all other types, and in Norfund's case excludes workers' tax. Other DFIs don't specify what they are counting so precisely, and until recently many reported the total tax paid by the firms in which they invested (not a pro rata rate relative to their actual equity share). This is a flawed indicator in two major respects: 1) the gross figure on its own means little as we have no context in which to put it. Only comparative reference would make sense of such a figure, such as more than or less than similar sized firms in the same economy, or more than or less than what the government requires or needs, or more than or less than the counterfactual of if it had been domiciled elsewhere. This latter is important since DFIs claim that secrecy jurisdiction domicile has little downward effect on tax paid, as it is extra investment that wouldn't have been mobilised otherwise, and because little extra tax would be applicable onshore. However a recent independent assessment by Murphy (2010) suggests that much tax is lost by routing investment offshore, a figure he estimated at EUR 430 million (about NOK 3,420 million) a year on average over the last five years, while in Bracking et al (2010, 6), USD 14.6 million in 2008 was estimated to have been avoided by 29 Norfund companies (for which we had data) as compared to the notional tax they would have paid had they been in the country of domicile of their actual operations, rather than a secrecy jurisdiction[18]. Thus, counting gross tax in isolation has little meaning. It would be better to insist that DFIs comply with procedural tax justice issues, and proximate domicile arrangements. The tax total indicator is also flawed because it attributes tax paid to an increase in equity in a firm, which is not necessarily the case [see section 3.1.2 for a new tax related indicator].

[18] Norfund commented that the analysis in Bracking et al (2010) was 'seriously questioned' and 'rejected', including by Johnsen (NHH) and Te Velde (Norad, mimeo, 2010) (Correspondence, 25th May 2011).

2.1.4 CURRENCY EFFECTS

Access to foreign exchange to ease balance of payments constraints has been critical to developing countries in the past, although Sinha et al make a case that increasing aid, workers' remittances and a rise in commodity prices have lessened foreign currency shortfalls. However, they also cite the S&P sovereign risk rating of 2010 to the effect that between 2008 and 2009, only 9 countries in Asia and five in Africa were rated as investment grade, constraining the ability of the rest to borrow from international markets (Sinha et al, 2010, 18). But caveats aside, healthy foreign currency inflows are generally good for development. A modern indicator to capture whether a DFI investment is extractive of foreign exchange or supports national savings and investment would be based on flows determined from country-by-country accounting conventions (see Murphy, 2009). In this sense, if DFIs mandated investee funds and firms to produce country-by-country accounts this would enable transparency in this regard. Since, as there are cases where stakeholders would, despite a net loss to currency reserves, still rate the development impact of a project highly if it met other criteria (that is, the direction of the indicator is not unambiguously positive in the sense defined above), allowing transparency seems a better solution than keeping an ambiguous indicator.

Also, in its current form, the indicator does not correspond to insisting on business models which would maximise the net currency effect, such as mandating sovereign domicile, but allows excessive drains on foreign exchange (such as in management fees, technical assistance fees, dividends, unpaid corporate and capital gains tax to leave for offshore financial centres) (see Bracking, 2010) to go unremarked, since they are internal to the firm. The currency indicator should insist on a business model and country domicile which maximises country-based receipts. Currently it merely counts tax paid in the absence of context and consideration of alternative rates, which is clearly insufficient.

2.2 LINK BETWEEN OUTCOMES AND IMPACT

A measured indicator of outcome is only one thing affecting what actually happens, which is influenced by other factors outside the project. So for example, the outcome of an energy project could be a growth in the number of connected customers to the electricity grid, particularly if the initial connections are subsidised by the energy provider or government. However, the impact of this will depend on whether those customers can subsequently afford to pay their bills. Problems here might occur later than the project evaluation frame, and have occurred say, in the debate around Eskom in South Africa, and Globeleq and Umeme in Uganda (Craig, 2008; Hall, 2007; War on Want, 2006, summarised in Bracking, 2009: 77-78). Impact differs from outcomes because it is long term, and affected by other factors outside the control of the firm. Thus the OECD DAC definition of impact is, 'positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended' (cited in White, 2010, 154). Leading on from this, as White summarises, '[T]he job of a quality impact evaluation is to trace the causal chain through from inputs to outcomes and impact, and different approaches most applicable to analysing different parts of it' (2010, 158, citing White, 2009).

2.2.1 CASE STUDY OF DOTS

DOTS, similarly to the other frameworks in use, concentrates on the outputs and outcomes of the client companies, after the IFC injection of funds, such that processes within the IFC and choices over how finance is supplied and to whom are not included. This means that the critical links between the type of finance supplied, the conduit used – equity or loan, the supply agent (fund, banks, SME) – and the domicile of the investment and tax planning instrument do not enter the evaluation frame as independent or dependent variables. It starts with 'IFC provides…' and the evaluation of impact follows, rather than the evaluation starting with the way the conduit, agent and finance type were decided. This is significant since it means that there is no data publically generated on the impact of these variables, which could be critical to eventual development impact. We introduce them as indicators in our new framework in section 3.

But even in terms of what is included, there are weaknesses, in that some of the attributes tested for are not unambiguously positive. The DOTS framework has a mix of positive and negative indicators so the 'yeses' and 'nos' recorded cannot be added or aggregated. For example, the table below summarises all the indicators (in the generic section) where there is ambiguity over the normative assignment of the measured attribute. These problems of ambiguity in the assignment of a normative value, or meaning, to the observed indicators are from two basic sources: 1) that the evidence is inconclusive about the development effect or impact of the attribute measured; 2) that the planned-for effect is context dependent and might be caused by something else, or might only work in the absence of something else. For example, some expected outcomes seem dependent on the project being a greenfield site, such that displacement effects can be discarded, as we saw in the example of employment above.

Other indicators, such as the 'yes/no' on privatisation are deeply imbedded in the early Washington Consensus era when disposal of parastatals and the commercialisation, corporatisation or privatisation of everything was seen as an unquestionable good. Now, evidence has grown to refute this basically ideological position, and the dubious success of many privatisations from the 1990s puts this into question. Table 1, at annex 5, summarises the errors, and also includes our new indicators (explained in section 3), and where they would go in the DOTS framework.

2.3 PROCEDURAL WEAKNESSES: TIMING AND FREQUENCY OF ASSESSMENT

There are also procedural weaknesses that emerged clearly from section 1. The first is that most DFIs do not do an ex ante development impact assessment before risk and financial considerations have already been covered, and some, like CDC and Swedfund, do not do this until some 'results' can be expected, after about two years. The impression is of an exercise that is secondary and not so important as securing the financial sustainability. A second key weakness is on the dominance of internal rather than external benchmarking, when poor initial positions can be slightly improved and this is sufficient. Compliance to international standards is seen as prohibitive for firms, but the rationale for this is not clearly explained. Third, there is a voluntary aspect to the portfolio firms' reporting procedures in most DFIs. For example, Swedfund report a return rate of 'environmental and social monitoring reports' of only 28% (Swedfund, 2010: 37). In others, the length or quality of reply is cursory. External auditing is clearly rarely used by any DFI (Norfund report 2 cases, CDC 2, Swedfund the occasional thematic report). Long-run impact reporting does not seem to be carried out at all.

2.4 CONCLUSION

There are weaknesses of substance in poor indicators, and weaknesses of procedure, in terms of infrequently and inconclusive reporting and lack of ex ante reporting, in the way that DFIs measure the development effects of their investments. It is also far from clear how this information actually affects the decisions taken on investment. In many, it seems to be carried out relatively independently from these. These weaknesses are serious for several reasons. First, it becomes difficult to assess the degree of attainment of policy goals pertaining to DFIs. As such, it is a democratic accountability problem. A secondary important reason is the need to achieve maximum effectiveness in the attainment of policy goals, which means that evaluation systems need to be linked to incentives and conditions. It is a natural part of implementing the principle of constantly seeking improvement, which requires reliable feedback of results achieved. The recent rash of new frameworks of an ever expanding length doesn't solve some of the more fundamental measurement problems outlined above, because they tend to add more and more criteria as a way of recognising a public concern, without sufficient acknowledgement that the data being collected is of poor quality, and doesn't actually affect operations in a clear manner.

Of primary concern here is that some of the data being collected is not easily attributable to the interventions. While it is laudable that health outreach in HIV or on domestic violence reduction (included in Norfund's social indicators) should be included, it is hard to measure whether their work will lead to any aggregated change in society. As we saw above, all the major indicators suffer from this problem to some degree. However, some of the attribution problems could only be 'solved' if prohibitively expensive research efforts were mounted, which would not make a useable system. It would be wise to recognise here that on some measures, input measurement (what the DFIs are doing) and process indicators (that mandate them to correct operational procedures and standards) are all that can be realistically measured, and that to try measure discreet outcomes is too heavy on resources. Clearly, where indicators are in any case ambivalent in their meaning – employment (gross headcount), tax, currency effects – the resources used to monitor them could be redirected, and better indicators should be found.

The evaluation systems also need updating to take account of recent changes in the global political economy, which they do not currently measure, such as the widespread nature of secrecy jurisdictions and their harmful structures. The DEG GPR indicators capture these better than the DOTS system, but areas of discretion mean that it is not clear how the results are treated by the organisations in actually making decisions. The issue of where the knowledge fits into social and political processes is a key issue here, as it is the democratic accountability aspect that requires developmental impact to be transparent and 'proven'. At present, accountability is not ensured through this process of evaluation because it has little purpose beyond the institution. Workers, community stakeholders, the 'neighbourhood', public authority, or NGOs are not party to the assessments, and largely don't use the data generated as they find it confusing. DFIs would benefit from participatory planning and intergovernmental checking of projects which are either high worth, or high risk, or contentious (combined with tax incentive for very good ones). However, current systems have little communication with the 'outside world'. ESG does not currently have to be conducted to be disclosed but is based on good faith, such that the assessments are not replicable by outsider verification or refute.

3.0 SECTION 3: A BETTER EVALUATION

> Science is built up of facts, as a house is built of stones; but an accumulation of facts is no more a science than a heap of stones is a house. (Henri Poincaré, Science and Hypothesis, 1905).

This section is in two parts: first, suggestions of what should be new indicators of development impact evaluation are presented, followed by suggestions on how the system as a whole could be improved to better meet the needs of stakeholders. A greater use of external evaluation and a wider participation in evaluation activities would benefit DFIs and development more generally, with an enhanced role for civil society organisations (CSOs), NGOs, public consultation and a more directed and strategic involvement of governments as the 'Owners'.

3.1 NEW INDICATORS

In the table below, we present some indicators that are not currently in use in development impact systems. Although they predominantly aim at procedural aspects of how DFIs invest and companies manage financial, social, and environmental issues, we believe that they could strongly impact development outcomes.

The indicators are: on investment domicile, incorporating a preference for onshore domicile; on the investment vehicle (broadly funds, firms, SMEs, MFIs), including a ceiling on management fees and end-user interest rates; an influence measure, to mandate change either by using conditionality on disbursements or government policy, and to particularly address the problem of influencein intermediated investments; a target sector indicator, with a preference for supply-constrained sectors with proven developmental impact; and an employment process indicator, to ensure trade union recognition and workers' rights.

We also think that an improvement in the corporate governance indicators could strongly impact on developmental effect, such as through greater transparency and disclosure of boards. Although the IFC lists 'greater commitment to corporate governance' as an indicator, it is not technically one and needs benchmarking. Furthermore, environmental and social aspects should be decoupled since, currently, social issues are singularly represented by jobs and health and safety, and yet there is need for a pollution management indicator to ensure extra-territorial compliance with EU environmental law. All of the above are included in the table at Annex 5, which shows where they could be placed in the DOTS system. Finally, we suggest that headcount employment, tax paid and currency effects be dropped in their current forms, and redesigned as comparative indicators to consider displacement effects, business models and counterfactual cases, and intra-firm transfer pricing respectively.

Area of intervention	Indicator	Purpose
Financial: Investment domicile	National company domicile for direct investments: Company must be registered in the country of actual economic activity for directly owned companies and single-country funds, and in a country with more than 10% of on-lending in case of multi-country funds. Invest only in countries scoring above 60% on the Opacity Score (TJN).	To enable payment of full capital gains tax (where applicable); To end abuse of double taxation agreements and tax regime 'free riding'; To expose investors in secrecy jurisdictions according to recognized standards.
Inequality and poverty reduction: Economic and Social	Use of GINI coefficient of project area; proportion of ownership shared with workers and community. Headcount index; poverty gap index, Human Development Index (HDI) and/or Participatory Rural Appraisal (PRA) exercise. Community Development Outlay (Donations)	To prevent extractive political economy structures; greater focus on social and economic justice. For Owners to mandate evaluation according to poverty focus of development policy and host government. To have representation.
Employment	Employment process indicator: benchmark to key ILO 87 and 98 labour standards.	To mitigate variations in national legislations, and to ensure trade union recognition and workers' rights.
Sector preference	Supply-constrained sectors with high growth effects.	To enhance development effectiveness.
Environment	Mandatory disclosure of ESIA on the internet and in local government offices (in translation). Pollution management. Need to improve to mandatory compliance with full EU environmental law extra-territorially.	For all stakeholders to have full knowledge of projects' risks. To encourage compliance and capacity building in FDI host country
Governance: PSD	Benchmarking of Fund Manager remuneration and fee structure to industry norms. Influence measure tied to conditionality on lending.	Prevent market distortion and public subsidy of aid-funded FMs at expense of non-aid funded[19].

[19] *See Altenburg and von Drachenfels, 2006.*

3.1.1 INVESTMENT DOMICILE

Only Norfund has a published policy on investment domicile, which argues that, all things being equal, national domicile is preferred. The earlier Norwegian Government Commission report (NOU) showed that tax havens or secrecy jurisdictions were a principle cause of low growth, low tax, and sub-standard development of social services in developing countries (NOU, 2009). Bracking et al (2010) reviewed the different theoretical positions of secrecy jurisdictions and the empirical evidence in support of each, and concluded that research which gave a 'positive view' of secrecy jurisdictions was flawed, since it was based only on the experience of developed countries. It is the authors' view that the recommendations of that study for domicile restrictions (33) should be mandatory conditions of DFI investment decided upon by the government Owners, alongside compulsory production of country-by-country accounts. They are incorporated into our Table 2.

The impact investing strategy (see section 1.3.6.), in terms of directing capital, can also help us with the tax and secrecy domicile challenge. It has become a principle of market development that there should be equality between participants, popularly referred to as a 'level playing field', and preferential tax regimes, preferential treatment of foreign nationals, and unequal treatment of shareholders, which tax havens facilitate, are against the spirit of economic equality. Indeed, the research on the negative developmental consequences of secrecy domicile is overwhelming (NOU, 2009), and includes empirical evidence that it retards growth, investment and savings, and welfare expenditure in developing countries. Government Owners could provide tax credits to investors and Funds which avoid secrecy jurisdiction domicile (capital directing), or mandate DFIs to avoid secrecy jurisdictions per se (supply development). To do this a traffic light system of ex ante development impact evaluation should give a red light to investment opportunities which include secrecy jurisdiction domicile. Alternatively, government owners could use the Opacity Score of the Tax Justice Network, set initially to a minimum of 60%, to mandate that investments are to be made only in countries with this minimum standard of opacity. Developing countries may lack capacity to implement laws, such that a higher score might be prohibitive in the first instance (as the indicators that go into the Opacity Score are quite demanding).

3.1.2 INVESTMENT VEHICLE (SME, MFI, COMMERCIAL BANK, FUND)

It is important to monitor the value chain inside organizations in which DFIs invest[20], not least because remuneration levels in private equity management are very high relative to other employment groups. Also, there is mounting evidence that some micro-finance has high end user costs. Funds in particular have come under much criticism of extraordinary profitability, at least up to 2007, although they are generally preferred as a vehicle because of high reach, and the fact that they do not leave a debt footprint. Ceilings for remuneration of fund managers by funds should be monitored. Our influence indicator is designed to address these problems and ensure that DFI preferences are adhered to by fund managers, through increased conditionality in lending.

[20] *Going into MDBs, which would be the next research step, would have diverted the focus of this study away from DFIs.*

3.1.3 INVESTMENT TYPE (LOAN, EQUITY, GUARANTEE)

There is little solid evidence of a correlation between development success and the type of investment used to achieve it (Sinha et al, 2011), mainly because development outcomes are not disaggregated by type. The absence of such an empirical link is reinforced by the views of managers interviewed by Sinha et al (2011). On the other hand, loans are considered safer than equity, given that they are secured by collateral and not exposed to currency risk, whereas equity investments have brought in higher returns for IFC (IEG, 2008: 6). Lesser likelihood of risk can thus be correlated with higher success in financial terms and, to some extent, with greater development outcomes for specific institutions (IEG, 2008: 5). However, '[O]f the four percent of projects with high project development outcomes and low IFC investment outcomes, the vast majority featured equity, while, of the 11 percent of projects with low development outcomes and high IFC investment outcomes, most involved a loan' (6), which signals that more variables go into the equation investment type-development outcome.

Regarding the EDFIs, distribution of investment type among them varies considerably, although aggregated numbers show, 'equity and quasi-equity making up 55%, loans 43% and guarantees 2%' (Dalberg, 2011). Individually, a number of DFIs invest heavily in equity (SIMEST-100%, CDC-96%, CODIFES-94%, SIFEM-88%, NORFUND-83%), some spreading it between portfolio companies and intermediary investment, which can take the form of fund of funds (such as CDC's). However, many combine equity and loans, and only one does not have equity investments (SOFID); seven DFIs include guarantees among their types of investment, while the remaining eight do not (EDFI, 2010; Dalberg, 2011).

For MDBs, investing in equity represents a powerful instrument to bring about wider, beyond-the-project impacts, but equity investments require, 'good systems and capacity' (Sinha et al, 2011: 24). Otherwise, loan servicing appears to be the alternative for efficiency reasons. One reason for equity's perceived superior potential is the degree of participation of DFIs in investee companies' boards, in the case of direct equity. Kingombe, Massa and te Velde (2011) observe that, 'the bilateral DFIs have more equity investments than loan investments compared with the multilaterals' (20).

Interestingly, credit guarantee schemes appear to hold the most potential for SMEs, insofar as they make visible the relation between risk and benefit: 'when guarantees are priced to reflect risk, they make it more likely for the SME program overall to show net benefits in the end' (Klein, 2010, in Sinha et al, 2011), and could contribute significantly to 'capacity building and training of participating banks, especially in less-developed financial systems' (Sinha et al: 25). However, less than 50 per cent of EDFIs have this as an investment type, although some countries also have Export Credit Agencies (ECAs) who perform a similar service, and who, problematically, have similar challenges in proving their developmental worth to DFIs. Because the data is inconclusive, an indicator on this is not suggested for investment type.

3.1.4 INFLUENCE MEASURE

The ESG of intermediated investments poses particular challenges since the DFI investment may be only a small contribution to a much larger fund with many other autonomous players, who have little or no obligation to consider or evaluate development impacts. The leverage and influence that DFIs claim to have is hard to evidence in practice and relies on qualitative judgments communicated by DFI personnel (Bracking et al, 2010). As Sinha et al (2011) also point out, there is a particular problem here in that the influence and leverage of the DFIs over labour practices is limited in intermediated investments, or where a commercial bank is on-lending to clients (2011, 4). The challenge for DFIs is to document such influence, which is also the key basis on which DFIs claim to be catalyzing additional funds, particularly when private investors might be reluctant to admit that they are 'following' a DFI investment, lead or recommendation. To prove influence would need conditionality measures applied to loans and equity, in order to mandate compliance with ESG. In other words, greater external benchmarking should be accompanied by a measure that tests whether the influence of DFIs is actually resulting in compliance.

3.1.5 TARGET SECTOR

The research into which economic sector is better at causing development relative to others is sparse, and of limited used, partly due to, 'the need to take account of country contexts and relative comparative advantages' (Sinha et al, 2011: 5). However, there has been some recent research that shows that, 'agriculture, infrastructure, the financial sector and manufacturing all have strong developmental impact' (ibid). Using the insights from the Impact Investing strategy outlined above, more research should be commissioned on different sector effects, but in the meantime investments in mining, leisure and retail should be reduced.

3.1.6 EMPLOYMENT QUALITY INDICATOR

Instead of counting gross employment, a mandatory workers' rights indicator – as a proxy for employment quality – would permanently enable workforces to have a say in firm strategy and use of investment through a recognized trade union, something that current evaluation systems fall short of[21]. This would be a yes/no indicator, weighted toward the positive for formal workplace trade union (TU) recognition. At present the best practice situation would be conformity to an international standard, ILO conventions (87 and 98), which requires respect for freedom of association and the right to collective bargaining. Recognition of unionization, 'is the best indicator to capture the respect of workers' rights, and in turn formal consultation with management would be the best way of determining what type of jobs and how many would have the most developmental impact'[22].

Also, the quality of employment is critically dependent on certain key factors such as risk to health and level of remuneration for hours spent, alongside other very localised variables, such as length of breaks or toilet access. Norfund's development impact evaluation asks for information on deaths at work, but does this without providing a context in which the figure could be evaluated: how many is 'normal', what is acceptable to workers, particularly in dangerous industries when wage rates are (supposed to) compensate for risk? Also, most impact assessments set a target of meeting minimum wage rates if these exist and have been set by government. Some go a step further and ask that companies pay 'living wage rates', although these again are notoriously difficult to define. Improvements would mean meeting global industry standards for accidents and fatalities[23], and purchasing power parity minimum wages (at least).

Improving the quality of work is exacerbated where there is no trade union recognition[24]. Here, the expertise found in the civic and trade union sectors globally is advanced and could be of benefit to DFIs if wider stakeholder consultation were part of the development impact evaluation system. In participatory workplace negotiation, workers can readily recognize reasonable and unreasonable wage rates since they are as, or more, concerned to keep employment as to maximise their monetary benefit from present day employment. A more participatory mode of development impact assessment on the part of DFIs could mandate TU recognition and use stakeholder consultation in independent evaluation. Other initiatives outside the DFI context have already produced composite, globally-endorsed indicators, such as the Global Reporting Initiative (GRI) indicators, whose economic indicators could be usefully used in consultations with DFIs about developmental impact[25].

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[21] The indicators on labour in the UN Global Compact Self-Assessment Tool are also helpful as benchmarks that could be included in qualitative assessments, http://www.globalcompactselfassessment.org/labour/tradeunions

[22] Ben Moxham from the UK TUC's EU and International Relations Department, Personal communication, 5th May 2011.

[23] Norfund commented that "fatalities are not acceptable and we work proactively to ensure the safety of our investments' workers (We do not operate with an expected, or normal, number of fatalities – the target is 0, and any fatality is serious and measures are taken to prevent similar accidents happening in the future). (Correspondence, 25th May 2011).

[24] The Sedex Members Ethical Trade Audit (SMETA) book on best practice in ethical trade audits, mentioned above, recommends union recognition as a criterion, has supplementary guidance on measuring the quality of freedom of association, and guidance on calculating minimum wages (SMETA, 2010: 28).

[25] Available at: http://www.globalreporting.org/NR/rdonlyres/53984807-9E9B-4B9F-B5E8-77667F35CC83/0/G31GuidelinesinclTechnicalProtocolFinal.pdf

3.2 A PARTICIPATORY EVALUATION SYSTEM

This section discusses how evaluation systems are placed in context, since all evaluation systems involve a trade-off between resources committed to measurement and resources committed to other activities, such as investing. This means that the best system will be one that collects enough data, but not too much. Evaluation systems also have to involve stakeholders in a way that confers legitimacy on the overall process and a widespread belief in its accuracy and efficacy. In this second regard, DFIs in the past, as reflected in CSR policies more widely, have tended to rely on private sector expertise in carrying out assessment and in its reporting, which in turn is generally confined to the firm, investors and the DFI rather than to stakeholders more widely. However, sometimes good ESG imposes significant or prohibitive costs on an investment opportunity, so public consultations need to be informed about profit contexts. As a Senior ESG manager in CDC pointed out, an overly aggressive system of evaluation can be counterproductive as it alienates potential investors and can serve to exclude investments in the most fragile, vulnerable and least developed areas of the global economy, where the cost of meeting ESG standards set at a high level is prohibitive (Interview, UK, 11th April).

However, accountability through accurate evaluation of development impact requires an acknowledgement that the science of evaluation is not infallible, even when directed to the public good. There is not an observable right answer on this, or even an indisputable system of measurement, however well designed or accurate. Nonetheless, it is necessary to bring PSD interventions more in line with their public counterparts, by a partly public system of evaluation and authorization. This will mean extending community outreach to enable public consultation and planning, with government approval required in contentious or large-scale investments. However, this is a challenge. As the Senior ESG Manager at the CDC pointed out, 'we are interested in helping people, not necessarily governments': if the government is predatory or nefarious a wider participatory authorization will be required (Interview, UK, 11th April 2011).

4.0 CONCLUSION

Alongside our improvements to common indicators found in Annex 5, our suggestions for new indicators, in the table just above, we would also suggest that DFIs should employ an ex ante development impact evaluation or screening instrument which asks whether public planning processes have been conducted (for Greenfield sites, and for stakeholders in firms where a significant equity investment of 10% or more is proposed); whether domicile is in the country of actual economic activity; and whether environmental compliance is accordance with EU law. If the answer to any is 'no', the investment should not proceed. These then would act as red lights in a 'traffic light' evaluation that would be made public both in the DFI's home country and investment host country.

Wider accountability and consideration of the political economy of development require that an ex ante democratic planning and consultation process should be mandatory for large, risky or contentious investments. We have also suggested that indicators whose line of causality to normative outcomes is unclear should be removed because of their weak substantiation in research. We are aware that this will face resistance, as some of the indicators are used heavily, particularly the counting of new jobs. However, the wider public may not share this attachment in any case since they are largely unaware of the current systems, and even NGOs tend to use their own observations, given that even when these systems are known, the numbers are complex, their significance is opaque and the influence that the results have on actual investment decision-making is unclear.

Overall, the two principles of what makes private sector development work - democratic accountability and maximised additionality - are being compromised because the assessments start once the key internal decisions, on who, how and where investments will be made, have already been made. The 'supply side' of PSD, in terms of the DFIs, private equity funds and commercial bank intermediaries are largely 'black boxes' into which the public cannot see, and decisions made within the supply institutions are not clearly influenced by the data provided by development impact evaluation systems. The current evaluation systems give a fairly rough evaluation of the financial and economic project level effects (FIRR and EIRR are very nebulous measurements made largely in the absence of publishing actual full accounts of investee companies), and a thin 'beyond the project' assessment. The mainstreaming of poverty reduction that occurred in the rest of the development effort, particularly across social welfare interventions, seems to have largely passed the DFIs by. This trend acknowledged the need for social 'safety nets' to protect the poor from the erosion of public services and mounting inequality. However, it is not all bad news. The new CDC Code, the new Norfund indicators on social and environmental effects, the current reform process underway in Finnfund are all better than what was happening before, but they just risk collecting data without a clear idea of what it means or what it will be used for.

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ANNEX 1: SURVEY INSTRUMENT:

A review of development evaluation systems in European development finance institutions

Does your organisation employ a separate 'development impact' system of evaluation, or is this covered using Social and Environmental Impact Assessment (SEIA) or ESG assessment (Economic, social and Governance) tools, or another type of framework? If you are not using an independent development impact system, what equivalent SEIA, or ESG system(s) is your organisation using to assess development effects? Please list all of the systems you use, for different sectors if applicable.

1) Is the developmental assessment done before an investment is made as part of the investment decision-making process?
a. Who does this?

2) Is the development assessment done after an investment has been made?
a. Who does this?

3) Does the Owner have a formal role in monitoring development impact either before investments are made, or after?

4) Does ex post evaluation lead to changes in similar projects in the following or subsequent investments made and if so, is there a systematic way in which this feedback is managed?

5) Who 'signs off' investments as worth making against expected developmental impact, that is between the DFI, the Owner, the Direct invested company, the Private Equity fund manager and/or the underlying investee company manager?

6) After an Investment Agreement has been reached between your organisation and a private equity fund, which makes the Manager promise to invest within certain limits, what subsequent checks does your organisation make, and how often?

7) Do Private Equity Fund managers present a development impact case on behalf of all of their underlying investee companies as a group, or individually to your organisation?

8) Does your organisation compile its own reports of the development impact of Funds in which it invests?
a. How often?

9) Does your organisation compile reports of the development impact of the underlying investee companies of the Funds in which it invest?
a. How often?

10) Does your organisation compile reports of the development impact of the direct investments that it makes?
a. How often?

11) Do private equity fund managers pass development impact reports to your organisation to review before making an investment in an underlying company?
a. If so, how often?

12) Are underlying investee company managers required to send development impact assessments to the Private Equity fund manager in which your organisation has an investment?
a. If so, how often?

13) Do you mandate, through the Investment Agreement or other contracting process, that any specific system is required for development impact assessment, either
a. By the Fund Manager
b. By the direct investment company manager?
c. By the underlying investee companies of the private equity fund?

14) If your organisation uses the Development Impact Library are all criteria required or merely the core section?

15) If your organisation is using the IFC system, do you use
a. Development Impact Tracking System (DOTS)?
b. The Environmental and Social Performance Indicators?

16) In which specific circumstances would an investment not be made? How many times has this happened since 2007 (inclusive) out of how many total proposed investments?

17) Are there additional evaluation and review activities in place which oversee the investments undertaken by your organisation - other than formal systems - which contribute to raising development impact, such as assigned and permanent advisors, expert visits, training?

18) How much evaluation is done by invited external auditors or consultants and how much is in-house?

19) Do you use bespoke development indicators developed by industrial sector (such as they are in DOTS)?

20) Do you have restrictions on domicile of investee funds or companies in offshore financial centres (OFCs)/ secrecy domiciles? (If yes please summarise or state the official standard that your organisation adheres to, such as the EDFI Guidelines)

21) Is your organisation's official position on OFCs published in a public domain such as the website?

22) What proportion of your development impact evaluations do you publish in a public domain?

23) If possible we would like to see a copy of a recent development impact evaluation, or several, or a summative document.

ANNEX 2: SOURCES FOR WEBSITE INFORMATION

DFI	Link
DEG (Germany)	http://www.deginvest.de/EN_Home/About_DEG/Our_Mandate/Environmental_and_Social_Compatibility/Environmental_and_Social_Standards.jsp
FMO (Netherlands)	http://www.fmo.nl/smartsite.dws?id=1665
CDC (UK)	http://www.cdcgroup.com/uploads/development_review_2009.pdf
Proparco (France)	http://www.proparco.fr/jahia/Jahia/site/proparco/lang/en/Les-outils-de-mesure-des-impacts
SIMEST (Italy)	http://www.simest.it/framesetpdf.asp?content/pdf/brochures/brochure_inglese.pdf
Norfund (Norway)	http://www.norfund.no/index.php?option=com_content&view=category&layout=blog&id=86&Itemid=233&lang=en
IFU (Denmark)	http://www.ifu.dk/en/Menu/Sustainable+investments/Principles
COFIDES (Spain)	http://www.cofides.es/english/6impact.html
FINNFund (Finland)	http://www.finnfund.fi/yritys/toimintastrategia/en_GB/finnfundsstrategy/
SIFEM (Switzerland)	http://www.sifem.ch/new/development-effect/guidelines/
Bio (Belgium)	http://www.bio-invest.be/en/impact/strengthening-the-private-sector.html
Swedfund (Sweden)	http://www.swedfund.se/wp-content/uploads/2011/04/GRI-2010-Swedfund-Webb.pdf
OeEB (Austria)	http://www.oe-eb.at/en/principles-cooperation/project-assessment/pages/default.aspx
BMI–SBI (Belgium)	http://www.bmi-sbi.be/en/strategie/impact_economie.html
SOFID (Portugal)	http://www.sofid.pt/index.php?option=com_content&task=view&id=14&Itemid=21

ANNEX 3: TABLE 1: EDFIS

- Summary and development impact measures and other attributes

(in order of total portfolio value 2009)

DFI	State ownership[26]	Owner/Line ministry[27]	Investment type[28]	Response ?
DEG (Germany)	State, 80% of KfW, DEG's owner	M of Economic Cooperation and Development	Equity 42% Loans 57% Guarantees 2%	No
FMO (Netherlands)	51%	M of Finance	Equity 45% Loans 51% Guarantees 3%	Yes
CDC (UK)	100%	Department for International Development (DfID)	Equity 96% Loans 4%	Yes
Proparco (France)	59%	M of Economy, Finance and Industry, M of Foreign Affairs (AFD)	Equity 14% Loans 84% Guarantees 2%	No
SIMEST (Italy)	76%	M of Economic Development	Equity 100%	No
NORFUND (Norway)	100%	M of Foreign Affairs (Norad)	Equity 85% Loans 15%	Yes
IFU/ IØ/IFV (Denmark)	100%	IFU: M of Development Cooperation; IØ: M of Foreign Affairs (DANIDA); IFV: M of Economic and Business Affairs	Equity 53% Loans 44% Guarantees 3%	Yes

[26] *Source: Dalberg (2011), The Growing Role of the Development Finance Institutions in International Development Policy 2010.*
[27] *Source: EDFI (2009), 2008 Comparative Analysis of EDFI Members.*
[28] *Source: EDFI (2010), 2009 Comparative Analysis of EDFI Members, in Dalberg (2011).*

Information on site	Assessment System and User e-tool kit	Ex-ante/ Ex-post	Indicators/Weighting
Annual Report	Own system: GPR	Both	Development Indicators Library. E&S sustainability guidelines as basis of environmental and social 'due diligence'.
Annual Evaluation Review	Own , based on IFC + Performance Standards Environmental and Social Management Toolkit for Investment Funds Manual	Both	New score card. EDIS will include assessment of quantitative outcome indicators, some sector specific Development impacts mainly about risk management, and expressed as the reduction of adverse risk impact.
Annual Development Review	IFC's DOTS Toolkit on ESG for Fund Managers	Both	'Performance indicators' across 4 areas: Financial Performance; Economic Performance; ESG Performance, and Private Sector Development.
Annual Report; 1 page with ex-ante, risk analysis results (in French).	GPR tool + own outreach indicators per type of investment (shared with AFD).	Both	Examples of development impacts: current public revenue, net currency effects, employment, technology and know-how transfer, extension and improvement of basic service supply, improvement of performances thanks to private operators, social effects (health, education, continuous training...)
Annual Report 2009. (difficult to open). Score key, credit eligibility criteria, check list (all in Italian)	?	?	?
Development Effects, Report on Operations, Annual Report	Own system based on IFC's	Ex post	General indicators (jobs, tax revenue) and sector-specific.
CSR reviews in some countries (4 available); Annual Report	UN Global Compact Self Assessment Tool (UN GCSAT) IFC's Standards	Both	List of Success Criteria across 4 areas: funds additionality, development impact, sustainability and profitability, operational efficiency and effectiveness.

ANNEX 3: TABLE 1: EDFIS - SUMMARY AND DEVELOPMENT IMPACT MEASURES AND OTHER ATTRIBUTES

DFI	State ownership[26]	Owner/Line ministry[27]	Investment type[28]	Response ?
COFIDES (Spain)	61%	M of Industry, Tourism and Trade	Equity 94% Loans 6%	No[29]
FINNFUND (Finland)	87.1%	M of Foreign Affairs	Equity 45% Loans 53% Guarantees 2%	Reply without form
SIFEM (Switzerland)	?	Private (mandate by M of Economy)	Equity 88% Loans 12%	No
Bio (Belgium)	50%	M of Development Cooperation	Equity 38% Loans 62%	No
Swedfund (Sweden)	100%	M of Foreign Affairs	Equity 64% Loans 36%	Reply without form
OeEB (Austria)	0% (except for Advisory Services)	Private (mandate: M of Finance, M of European and International Affairs)	Equity 47% Loans 42% Guarantees 11%	Reply without form
BMI-SBI (Belgium)	63%	Federal Ministry of Public Enterprises	Equity 57% Loans 43%	No
SOFID (Portugal)	59.99%	Ministry of Finance (president of the development agency, IPAD, is vice president of advisory body Strategic Council)	Loans 83% Guarantees 17%	Yes

[26] *Source: Dalberg (2011), The Growing Role of the Development Finance Institutions in International Development Policy 2010.*
[27] *Source: EDFI (2009), 2008 Comparative Analysis of EDFI Members.*
[28] *Source: EDFI (2010), 2009 Comparative Analysis of EDFI Members, in Dalberg (2011).*

Information on site	Assessment System and User e-tool kit	Ex-ante/ Ex-post	Indicators/Weighting
Annual Report, Business Ethics Code of Conduct. First Annual Sustainable Report forthcoming.	GPR tool	?	– S&E Assessment as third and last component of application. – 'commitment to further fundamental principles in the areas of human rights, labour, the environment and anti-corruption'.
Annual Report	Under development	None	Introducing more systematic assessment, monitoring and appraisal tools for evaluating development impacts' in the future.
No publications	GPR tool +ESG Guidelines	Both	Reference to ESG standards for measuring developing effects + GPR tool developed by DEG. Economic, Social, and Environmental sustainability.
Annual Report; GPR Report	GPR tool	Ex ante. Ex post?	Four types of impact: social, economic, environmental, and governance. Three areas measured for development effects: financial institutions/banks, private equity funds, infrastructure projects. To request a loan, '[T]he key document for the initial evaluation of your project is an up-to-date business plan'[30].
Sustainability report, Guidelines for Swedfund & investee companies.	CDC/IFC's	Both	Indicators: Financial Performance, Economic Performance, ESG Performance, and Private Sector Development.
Annual (difficult to find)	GPR tool	?	Short statement about compliance with 'international standards'.
No reports, no guidelines/principles	?	?	Social impact: access to paid work for the local population; Economic impact: generation of fiscal revenues, development of the financial market; Political impact: stabilization of political authority and the creation of social, environmental and economic regulations.'
Annual Report. 2008 Report in Portuguese only.	Risk assessment	Ex ante (but only risk assess--ment)	No indicators, only principles. Est.2008, no ex post.

[29] *The survey document sent via email was automatically returned, even after phone contact was made (19 April 2011).*
[30] *"BIO also evaluates the development effects for Productive companies" Insertion requested by BIO, 29th May 2011.*

ANNEX 4: STANDARDS FOR BENCHMARKING DEVELOPMENT IMPACT ASSESSMENTS[31]

Responsibilities of Financial Institutions:

- Basel Committee for Banking ...
- Customer Due Diligence for Banks
- Wolfsberg Standards on Anti-Money Laundering
- Financial Action Task Force on Money Laundering: Forty Recommendations on Money Laundering

Tools and Guidelines for Private Sector:

- Business Anti-Corruption Portal – Norwegian financed portal with information for companies about corruption in various countries and on tools to prevent corruption.
- Transparency International Business Principles for Countering Bribery including the Six Step Implementation Process – tools for companies, including SMEs.
- International Chamber of Commerce: Rules of Conduct and Recommendations on Combating Extortion and Bribery
- OECDs Guidelines for Multinational Enterprises –Approved guidelines by Governments but voluntarily implemented by private sector.
- Caux Round Table, Principles for Business
- UN Global Compact, -Voluntary acceptance.
- UN Principles for Responsible Investment
- International Association of Oil and Gas Producers - Guidelines on Reputational Due Diligence
- TRACE: a non-profit specialised in cost effective anti-corruption solutions for MNCs and their intermediaries.
- International Federation of Consulting Engineers (FIDIC): Integrity Management System –tool to secure integrity.
- Partnering Against Corruption Initiative (PACI) –Principles that give practical content to the OECD Convention Against Bribery in International Business Transactions.
- OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones

[31] *Thanks to Fredrik Eriksson, Norad, who provided this list.*

NOTES

ANNEX 5: POTENTIAL IMPROVEMENT

CI: Corporate Indicators

Location of indicator in DOTS	Stakeholder	Outcome	Indicator (improved/new)
CI-Economic Performance	Society	Returns	Economic Rate of Return (ERR)
CI-Economic Performance	Society	More employment	Jobs counted, % female, indirect jobs
CI-Economic Performance	Society	Returns	Company must be registered in the country of actual economic activity for directly owned companies and single-country funds, and in a country with more than 10% of on-lending in case of multi-country funds
CI-Economic Performance	The poor	Improved wellbeing of poor	GINI coefficient of project area; proportion of ownership shared with workers and community.
CI-Economic Performance	Central and local governments	More income	Invest only in countries scoring below 60% on the Opacity Score (TJN)
CI-Environmental & Social Performance	Neighbours	Environmental impact	Pollution management. Need to improve to mandatory compliance with full EU environmental law extra-territorially.
CI-Environmental & Social Performance	Neighbours	Community development	Community Development Outlay (Donations)
			New Indicators
CI-Environmental and Social Performance	Community	Knowledge of activities and risks	Mandatory disclosure of ESIA on the internet and in local government offices (in translation)
CI-Environmental and Social Performance	Community development or workers or employees	Quality of work	Benchmark to key ILO 87 and 98 labour standards
CI-Community Development	The poor		Poverty reduction, headcount index; poverty gap index, Human Development Index (HDI) and/or Participatory Rural Appraisal (PRA) exercise

POINTS IN CURRENT INDICATORS

Purpose	Weaknesses/ Comments	Source
	No clear subject and control group, no clear attribution analysis	DOTS, DIL
Counting job creation	Possible negative effects/external effects: displacement effects.	DOTS, DIL
New Indicators		
To enable payment of full capital gains tax (where applicable; To end abuse of double taxation agreements and tax regime 'free riding'		Domicile-related indicators in the Key Financial Secrecy Indicators: http://www.secrecy jurisdictions.com/kfsi
To prevent extractive political economy structures; greater focus on social and economic justice.		On GINI coefficient: http://www.statistics.gov. uk/ about/methodology_by_ theme/gini/default.asp
To expose investors in secrecy jurisdictions according to recognized standards.	The assumption is that governments will invest additional revenue in public goods.	Opacity Score (http:// www.financialsecrecyindex. com/2009results.html)
To encourage compliance and capacity building in FDI host country.	Currently optional in DIL. No reference to global standards. Environmental and social dimensions should be decoupled, since currently social issues are singularly represented by jobs.	DOTS, DIL
To have representation.	Donations to community can sound large to them, but needs to be a percentage of investment value.	
For all stakeholders to have full knowledge of projects' risks.	MIGA (WBG) has made these available selectively, as well as process-related information for investments they guarantee.	
To mitigate variations in national legislations.		ILO. Also UN Principles; OECD MNC Guidelines
For Owners to mandate evaluation according to poverty focus of development policy and host government.		Inequality-adjusted Development Index: http:// hdr.undp.org/en/ statistics/ihdi/ Poverty Gap Index, examples: http://

CI-PSD	Competitors and new entrants, corporate governance	Greater Commitment to Corporate Governance	
CI-PSD	Competitors and new entrants, corporate governance (IFC definition)	Improvements to structure and functioning of Board	
CI-PSD	Competitors and new entrants, corporate governance		Enhancement of the Control Environment
CI-PSD	Competitors and new entrants, corporate governance	Improved Transparency and Disclosure	To improve market information and public accountability
CI-PSD	Competitors and new entrants, corporate governance		Better Treatment of Shareholders
CI-PSD	Competitors and new entrants, linkages		Due diligence assistance provided (Y/N)
			New Indicators
CI-PSD	Competitors and New Entrants/ corporate governance		Benchmarking of Fund Manager remuneration and fee structure to industry norms

[32] *Guidelines currently exist but they are voluntary and, as of 2009, only half of the private equity firms in the UK complied with them (http://www.independent.co.uk/news/business/news/half-of-private-equity-firms-are-ignoring-transparency-guidelines-1332241.html).*

		geocommons.com/ maps/9409 http://sedac.ciesin.columbia.edu/ povmap/downloads/maps/country /ALB_ADM2_FGT_1.pdf Definitions: http://www.fao.org/ Wairdocs/TAC/X5784E/x5784e0m.htm PRA: http://www.iisd.org/casl/ caslguide/pra.htm
To improve Corporate Governance	Qualitative. Although IFC give' greater commitment…' as their indicator, this is only actually a purpose. Improve to: Number/Description of yearly initiatives towards better corporate governance. Score for corporate governance quality.	
To improve Board level corporate Governance	IFC indicator is technically a purpose. Need an indicator. Improve to: Full disclosure of Board members and beneficial owners; public disclosure of proceedings; full disclosure of 'distributed value' for each company and fund.	
To improve environmental regulation	Qualitative. Improve to: knowledge sharing though participatory advisory boards of industry heads, workers and government.	
Qualitative Need benchmarking to full country-by-country accounts for Equity Funds; international accounting standards for direct investments[32]	The Guidelines Monitoring Group, Private Equity Monitoring Group on Transparency and Disclosure (http://www.walker-gmg.co.uk/? section=10774)	
To improve economic justice and market regulation	Qualitative: Should explicitly prevent discriminatory practice to benefit international over national shareholders in the jurisdiction of actual economic activity, as secrecy jurisdictions do.	Financial Secrecy Index, Tax Justice Network (http://www.secrecy jurisdictions.com/kfsi)
To check for PEPs and money laundering, especially dormant portfolio ownership for PEPs while active in political office	Too vague and thin. Need enforcement of 'know-your-customer' (KYC) policies by banks, also applied to companies, funds, and DFIs, as part of independent due diligence checking.	Basel Committee publication No. 85 "Customer due diligence for banks" (http://www.bis.org/publ/bcbs85 annex. htm) Dow Jones Watchlist, Global PEP database (http://www. dowjones.com/info/global-pep-database.asp)
Prevent market distortion and public subsidy of aid-funded FMs at expense of non-aid funded (in accordance with NMA approach to PSD[33].		Pillar 3 disclosure requirements for remuneration, the Basel Committee on Banking Supervision (http://www.bis.org/publ/ bcbs191.htm)

[33] *See Altenburg and von Drachenfels, 2006*

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Norwegian Church Aid struggles together with people and organisations across the world to eradicate poverty and injustice.

We provide emergency assistance in disasters and work for long-term development in local communities. In order to address root causes of poverty, we advocate for just decisions by public authorities, business and religious leaders.

Norwegian Church Aid is an ecumenical diakonal organisation for global justice. Our work is carried out with no intention of influencing people's religious affiliation.

To ensure efficiency and create results. Norwegian Church Aid is a member of the ACT Alliance, one of the world's largest humanitarian alliances. The alliance consists of church-based organisations throughout the world and cooperates with organisations across religious faiths.

Norwegian Church Aid – together for a just world

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