IMPACT INVESTMENT

AN IDEALISTIC CAPITALIST APPROACH TO DEVELOPMENT

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An idealistic capitalist approach to development

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PREFACE

For you, my dear mother. Finally, we are here. Mostly thanks to you, I have now accomplished to finish the most important chapter in my life, so far. The great love and support you, more than any other person, has showed me, makes this thesis my gift from me to you. I love you more than anything.

Anas, my dear brother. Also, a great thanks to you, for the love and support during the hard times, leading up to, during and finishing this thesis. I love you, my little bit brother.

Sarê ´a delal. My dearest friend and sister. I know you are looking down and cheering from heaven. Thank you for your guidance – You will forever be in my heart.

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ABSTRACT

Scholars from various fields of study have been debating the behavioral change, both from private and public entities. Often linking it back and reasoning it with the financial crisis, which sparked higher expectations from the public towards corporate behavior, and a demand for relevant public institutions to solve these issues, it is evident that there is becoming a large gap when it comes to identifying *who* or *what* is responsible *where*. While the increasing interest around impact investing - doing well, while doing good, gained its foothold during the financial crisis, is also leaves private corporations to get involved into areas, where governments normally are the duty-bearers. The increasing support from governments, intergovernmental organizations and so on has sparked my interest into how Danish actors mobilize the private resources into their developmental work, and to what extend these meet the communicated goals. Taking point of departure from the public Danish Investment Fund for Developing countries and the private Nordic Impact Funds. The qualitative research to this matter, has through discourse analysis found that the respective Danish financial impact institutions mobilize private sector resources thought investments in either equity or debt. This is so they can gain voting power in decision-making at the board of directors or a complete ownership. Hence, the aim is to advice or implement strategies that can generate a financial return, along with an impact in developing countries. The extend to which the IFU achieves their communicated goals, is limited – however, due to theory based on FDI, Impact Investing and the Blended Value, social and economic development can happen, however not to the full potential, possible.

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I. INTRODUCTION

Following section is a presentation and introduction to the subject of this thesis. Followed by a presentation of the problem area, which is the context and cornerstone of the problem formulation, this section will also present a delimitation paragraph that will point out the specific areas included in the study and the areas that are excluded, and the reasons why. Subsequently, the last part of this chapter will present an account of methodology, research strategy and a critical paragraph of the sources utilized in the research. The last paragraph will critically address the theories, sources of data, their reliability and validity of these.

The global financial crisis in 2008, also referred to as the worst economic downturn since the 1930's Great Depression, sparked a highly and still widely debated topic regarding responsibilities private companies has towards the society economy at large. What essentially was triggered by the collapse of the U.S. housing market, that forced the bankruptcy filed by the American financial service firm, Lehman Brothers, and the massive sell-off of shares on Wall Street that followed, is also in some debates argued as being a result of neglection or even careless acts of private corporations and the government, that finally was the reason for financial crises, internationally. (Ravenhill 2014, 4, Investopedia 2017) While I am not seeking to conclude which of the parties that lie with the guilt (if any) in this project, the general essence and discussion around this topic is never the less still very relevant in terms of responsibility, (global) governance and development, for various reasons.

Scholars from various fields of study have been debating the change in behavior, both from private and public entities. Often linking it back and reasoning it with the financial crisis, which sparked higher expectations from the public towards corporate behavior, and a demand for relevant public institutions to solve these issues, it is evident that there is becoming a large gap when it comes to identifying *who* or *what* is responsible *where* nationally, let alone internationally. Many argue that private companies are taking on a larger responsibility into the sphere of what is normally categorized as being the sole responsibility of the public sector and its underlying institutions and agencies. This larger involvement in public responsibilities is what would have been referred to as corporate social responsibility (CSR), but certainly extends to beyond the general understanding of the concept, as simply being responsibilities and ethical/moral activities firms execute, due to societal expectations and pressure from non-governmental organizations (NGOs). (Scherer and Palazzo 2011, Carroll

1991) It is obvious, however, that the financial crisis has not been the sole reason for the behavioral change of public and private entities. Globalization, which has accelerated rapidly due to political decisions and regulations[1], has resulted in declining costs of transfer of goods, communication, people, and know-how. Thus, the transnational independence – globalization - has brought social interaction between nations closer and more efficient than ever. The increase in competition, opportunities and risks, and the interdependence from economic and social actors may have played a significant role to the behavioral change of, especially, private multinational corporations (MNCs). *"... the strict division of labor between private business and nation state governance does not hold any more."* (Scherer and Palazzo 2011, 899) Scherer and Palazzo base their arguments on several reasons. Firstly, the number of companies that subscribe and become members of the UN Global Compact. At the time of writing, there are approx. 9.000 companies and 4.000 non-businesses (United Nations Global Compact 2017), which voluntarily holds themselves, their operations and activities accountable to the public by following and engaging in a set of rules and regulations, without being legally obliged to do so. Secondly, some MNCs are starting to take *state-like* roles by fulfilling areas that are considered responsibilities of the state and is government. Some, among other things are, for instance *"... protecting, enabling, and implementing citizenship rights."* (Matten and Crane 2005, Scherer and Palazzo 2011, 900) An example could be, that *X*-MNC operates in X-country with failed state agencies, which has no protection for children against child labor. *X*-MNC, therefore, has implemented self-regulating entities to ensure that its supply chain does not use child labor. But where does these ethical codes and behavior derive from? Are the private firms indirectly obliged to carry out these activities, due to public pressure? Are the activities long-term strategies to develop or better image and band, due to bad publicity? Or is it simply an actual change in mentality, that proves that generating positive social and economic value is just as important as generating return?

The tendency most certainly invites for discussions about a potential paradigm shift in global governance and development, and public/private entities, their roles, involvement, responsibilities, or

[1] E.g. trade liberalization, capital, FDI, and technological advancements. (Scherer and Palazzo 2011, 901)

lack of same. The bifurcated system we traditionally know, divides the economic and profit-oriented (private sector), and social/political (public sector) responsibilities and activities, as Jed Emerson and Anthony Bugg-Levine presents it and which will be accounted for further in the paragraph on **BLENDED VALUE** in chapter II. Today, this divide is becoming more blurred and it is not rare to find MNCs engaging in education, social security, protection of environment, public health, amongst other things. (Scherer and Palazzo 2011, 899) From a public-sector point of view, public and intergovernmental institutions like the United Nations (UN) is opening their arms more and more towards public-private partnerships[2] by including private corporations in their developmental and sustainability work.

Inspired by the claims and arguments presented by Matten and Crane (2005) and Scherer and Palazzo (2011), these will be the cornerstone and point of departure of this research. That is, the debate in international relations, development studies and international affairs, the involvement from private businesses in stately responsibilities and public (international)governance. They underline that there is a whirlwind of new and innovative methods and practices by incorporating the best of two worlds*; getting rich while helping others* in securing development.

Already in 2002, the former Secretary-General of the UN, Kofi Annan, stated "*Today there is a growing recognition that lasting and effective answers can only be found if business joins in partnership and working together with other actors including government and civil society […] we all have to remain fully engaged. We now understand that both business and society stand to benefit from working together […] we are realizing that it is only by mobilizing the corporate sector that we can make significant progress."* (Annan 2002, 1) In June 2013, former Prime Minister of the UK, David Cameron, announced the formation of The Social Impact Investment Taskforce, at the G8 Social Impact Investment Forum. Its aim was to kickstart the development, innovative methods, and

[2] In the paper 'Public-private partnerships and Humanitarian Assistance: Lessons from IKEA Foundation's Refugee Sector Provision" (2015), I have researched this topic and it is concluded, that the UN is involving companies like Microsoft, Facebook and Ikea Foundations more and more in humanitarian assistance and developmental work.

practices of the social impact market. By August 2015, it was replaced by the Global Social Impact Investment Steering Group (GSG) and today its membership if formed into eight countries, representatives from European Union (EU) and active observers from leading network organizations that support impact investing. (GOV.UK 2017) Many institutions and organizations alike has been formed in recent years, not only from the public sector but also from the private. With great support from intergovernmental organizations like the UN and the Organization for Economic Co-operation and Development (OECD), they also engage themselves by encouraging developing, and promoting the concept and tendency of (Social) Impact Investment. "*New and innovative approaches are needed for addressing social and economic challenges. Social impact investment seeks to leverage innovation and apply measurement rigor to achieve social outcomes. This approach has become increasingly relevant in today's economic setting as social challenges have mounted while public funds in many countries are under pressure."* (OECD 2015, 3) While the Global Impact Investing Network (GIIN) is one of the largest impact investing organizations in the world, they state that quantifying the market size of impact investing fully still not is possible, due to the relative new term. (Bugg-Levine and Emerson 2011, 5, GIIN 2017) However, in GIIN's annual report from 2017, the organization states that 208 respondents to their survey reported a USD 181 billion of total capital invested. The year before, the total capital investment from the 205 respondents was USD 22.1 billion. (Mudaliar, et al. 2017)

Thus, it is safe to say that the awareness, recognition, and potential of the opportunities of investing with *positive* impact[3] to meet economic, environmental and/or social development in developing countries, has grown considerably across private and public spheres.

PROBLEM AREA

The increasing interest around impact investing - from the private investor who seeks to get rich while doing good, to governments replacing their traditional contributions of aid with impact investments,

[3] In this thesis, positive impact is referred to the positive effects that are or can be created in the environment, society or/and economy, locally, nationally, regionally or/and internationally, due to the investment made.

all the way to intergovernmental organizations that implement these innovative practices, aiming to battle global economic and social challenges, sustainably and with a return of capital. As beforementioned, it is safe to say that while the term is relatively new, it has managed to gain much positive attention from many different actors, internationally. The field of impact investing is expanding rapidly, and is also becoming a reality in the Nordic countries, hereunder Denmark. According to the Ministry of Foreign Affairs of Denmark, its first private impact investment fund was established in 2016, by Lisbeth S. Zacho, the former vice president of SOS Children's Villages. (C. V. Flensborg 2017) Additionally, the Danish state has various financing institutions that join partnerships with private businesses and corporations, in order to promote development in developing and emerging markets while aiding Danish interests, such as export and trade. One of such institutions, called Investment Funds for Developing Countries (IFU) and Danida Business Finance (DBF)[4].

This thesis seeks to identify the methods used by Danish financing funds, to mobilize private resources in order to contribute to their social and developmental work, in developing countries and emerging markets, along with generating a financial return. Further, it seeks to clarify to what extend the communicated goals and aims of the institutions live up to the essential positive impact they seek to create, in the aforementioned markets.

IFU has made investments across Asia, Latin America, Africa and Central and East Europe. They have invested in more than 1200 project companies and state that they contribute to development on a commercial basis, however in order for a company to receive investment from the fund, it has to fulfill sustainability criteria and a present a portfolio that proves to create a positive impact in the host country and a financial return. (IFU 2017) Thus, the central focal point of this thesis surrounds the question mark left behind *positive impact*, which essentially is the result of a larger involvement from

[4] On September 1st 2017, Danida Business Finance merged with the IFU, wherefore I will refer to the organizations only as IFU. (Udenrigsministeriet 2017)

the private corporations to engage in responsibilities of state and government, and the acceptance to do so, from the public institutions.

Problem formulation

Impact investing seems like an idealistic capitalist model that in one hand can challenge social, environmental and economic development issues and create profits at the same time. And more so, after the great fall of the neo-liberalistic beliefs, that echoed for less regulation and free trade, which caused the financial crisis and economic earthquake in 2008. Incorporating philanthropic goals with business practices might seem like a win-win situation, both for the investor and the investee. But what about the receiver?

I seek to shed academic light and attention to following problem formulation:

"What methods does the IFU and Nordic Impact Funds utilize to mobilize private sector resources to contribute to sustainable social and economic development and to what extend to they live up to their communicated goals?

DELIMITATION

The objective of this thesis is to detect the concept and tendency of impact investment; to find what it is, how it is utilized and for what reasons, on an overall level. Additionally, I seek to establish to what extent the respective Danish public financing fund, through impact investing, meet the aims and goals they communicate on various online and offline platforms. This research is therefore a critical analysis, aiming to highlight these factors.

The methods I will use to comprehensively conclude the central question of this thesis, will be done through discourse analysis of carefully selected empirical data. This will be described in further details in section 0 'Research Strategy' and 0 'Sources of data'.

This thesis will not focus on analyzing the financial statements and other quantitative data related to finances and the wellbeing of a company, project company, institution, or organization. However, due to the positive and sustainable impact that is part of these kinds of investment, I find it necessary to shed academic light upon this area of *blended value* and the impact itself. Moreover, the field has much knowledge about investment and financing, and more experts express the need for attracting expertise and knowledge about social value. This is also expressed in the article, published in Standford Scocial Innovation Review, which will be discussed further, below. Thus, the focal point of this thesis, with regards to impact investments, will be on the sustainability and positive social, economic and environmental impacts, that IFU aims to create though the practices they utilize to contribute to development in developing countries and emerging markets. The overall theme of this research surrounds the topic of capitalism and liberal business practices merging in the field of aid, philanthropy and governance.

The intention behind this thesis, is to detect the concept of impact investment in order to constructively contribute to the highly discussed area of *international development* and the need for innovative practices, methods, expertise to battle societal and economical challenges around the world. It is no secret that traditional governmental aid long has been under profound critique by scholars from various fields, for being useless and outdated, which is also an incentive for this research.

DESIGN

Having introduced the problem area, problem formulation and the delimitations of the research, following section will account for the research strategy, the sources of data utilized, and finally, a critical assessment of the validity and reliability of the materials and sources. Additionally, this paragraph will outline the overall structure of this research and present the content of each chapter.

Chapter II presents the conceptual framework of the research. It will outline the theory of impact investment and a general definition and area of sustainable development, in order to assess how the aforementioned funds, the IFU and Nordic Impact Funds, take part in battling developmental issues internationally. This will be the stepping stone for chapter **Error! Reference source not found.**, which is an account of IFU and Nordic Impact Funds' backgrounds, respectively. Each paragraph will account for the organizational structures, operations, activities, and sustainable statements, the funds carry out. The section will contribute to an in-depth understanding of the methods and practices the funds utilize to realize their developmental work in developing countries and how these are realized, if it can be determined that they are so. Lastly, chapter V presents a discussion and conclusion of the findings.

In order to answer the above written problem formulation comprehensively, while shedding academic light to the subject matter, following methods and scientific theories have been employed.

METHODOLOGY AND SCIENTIFIC THEORY

Throughout this paper, the hermeneutic circle (or spiral) has been employed, as I have started with preconceived knowledge about the topic in question. I have search for information, though analysis, resulting in preliminary conclusions, which has provided with additional findings to analyze and conclude on, and so back and forth, until the sum of the preliminary conclusions are to represent a thorough conclusion to the problem formulation. Furthermore, the use of several concepts (as presented in chapter two), are used as the theoretical backbone for the analysis, and has been formed out small analytical parts, whose sum make the final holistic understanding of the *trugh*, namely the conclusion, as before mentioned.

The methods I have used to collect my data have been to firstly establish the already existing information about impact investing and organization/institutions that conduct this practice, both here in Denmark and abroad, in order to obtain a general knowledge about the concept. I contacted several professors in economics, development studies and international affairs and relations, however none of them were familiar with impact investing. *"You are the expert here"* was the respond from them. Thus, the decision to conduct my final thesis at the university on this area was instant.

The way the analytical part is built up, is around the use of the concepts of sustainable development, FDI and the tendency of impact investment. These will serve as firstly, an introduction and account to the concepts and thereafter, as the theoretical background for the analysis. I will account for this in more details in the section 'Research Strategy'.

SCIENTIFIC THEORIES

Social constructivism is the employed scientific theory of this research, as I will be analyzing discourse and organization, which are socially constructed – *"The social order is in a constant state of change…"* (Bryman 2008, 19) and my aim is to find the relationship between reality and discourse, by interpreting how people perceive things. Thus, in practice I will interpret by analyzing the empirical data (interviews and websites), that display how people (IFU and Nordic Impact Funds) perceive their *truth*.

RESEARCH STRATEGY

The research strategy to this thesis is a qualitative research with an inductive approach to the concept, Impact investing. I had made observations/findings and the outcome of this, was the findings of the theory, on which this thesis is based on. (Bryman 2008, 11) Primarily, I had a preconceived understanding of the increasing involvement from private firms into public responsibilities, and the relationship between FDI, globalization and development, which I have obtained from my internship at Invest in Denmark under the Ministry of Foreign Affairs of Denmark. Due to my curiosity and great interest in sustainable development I eventually gathered more information the concept of impact investing from reading the article from Business Insider; *"Millennials are driving a shift in how the ultra-wealthy manage their money"* (Chaparro 2017). The article presents the findings of a report, carried out by USB[5] and Campden Wealth Research, that shows an increasing interest in

[5] A Swiss financial service firm

sustainable investing among wealthy millennials and family-offices. The findings also suggest that there is a larger focus on philanthropy and impact investment from family offices, *"... which manage the money of the super rich..*" (Chaparro 2017) Furthermore, the report found that between 2014 and 2016, the area of sustainable investment has grown on a rate on more than 33%, in the US. Therefore, I sought to find more information about the concept, and if this existed in Denmark. What I found, was surprisingly limited… it had not yet become a topic of discussion and research in Danish academia. Also, the public institutions, which 'normally' would carry out these kinds of practices did not, and still do not even use the term. The public institutions I am referring to here are Danida and Investment Fund for Developing countries. Thus, this sparked the path of this research and I found theories about the concept Impact Investing.

As beforementioned, this paper is a qualitative research, because it primarily will weigh on qualitative data and take point of departure from a social constructivist view. Thus, the qualitative method is generally used in scientific research to gain information from complex material, that cannot be observed or/and measured. (Gyldendal 2009-2014)

I will conduct discourse analysis on website content, annual reports and interviews of IFU and Nordic Impact funds, as I basically aim to explore the relationship between reality and the discourse. (Bryman 2008, 508) The analysis is built up around the use of the sustainable development, FDI and impact investment as concepts. This is because I seek to detect the practice of impact investing, from the respective financial funds mentioned. Further, I seek to identify if there can be found a link between the communicated aims and goals the institutions have, and what they state they have achieved. The reason for using this approach to my research, is because the developmental practices are in a continuous change.

SOURCES OF DATA

The sources of data utilized in this thesis are multiple journalistic articles about impact investment and the private sector, and articles from academic journals that discusses the concept in perspective to globalization, development and public/private sector. These sources are secondary data, which I have used to gather an overall understanding and knowledge about the concepts and tendencies in question.

The primary data, which I will utilize as empirical data for my analysis, are collected are directly from the sources themselves; interviews, website content and annual reports.

Thus, I have chosen to conduct qualitative interviews for following reasons;

- to gather background information about impact investing from the perspective of an actor from the private sector (Nordic Impact Funds)
- to gather background information about impact investing from the perspective of an actor from the public sector, and
- to see how they approach the concept, and
- to find what they communicate their goals, and they state they achieve them.

The qualitative interviews are semi-structured and flexible, as there are some fixed questions I seek to find answers to, but the flexibility of a more conversation-like interview structure allows me to receive more details for my research than if the questions were fully structured and fixed. (Bryman 2008, 437)

RELIABILITY AND VALIDITY

Qualitative research is at times criticized as being too subjective. However, taking a critical point of departure, as my analysis will be *critical discourse analysis*, I have a professional, academic and critical approach to research and the sources used. As the research is based on these are *human* matters; communication, organization, society and culture, the qualitative research method is also the best method in order to conduct a thorough analysis on the topic. As beforementioned, the empirical data are complex and are not possible to observe or measure in anyway.

While the data I have collected is very reliable, as is collected from primary sources, I also have to stay critical, as they are representations from the organizations. Therefore, they can have a level of biasness, which I continuously and actively keep myself aware of, in order to conduct valid research.

INTERVIEWEES

Lisbeth S. Zacho, CEO of Nordic Impact Funds will allow me to obtain inside knowledge and practical information about what impact investing is, for what purpose and how it is utilized. This will give me a general background knowledge, apart from the theoretical material to the project, which can aid in terms of fully understanding what impact investing is and what its surroundings are.

The IFU gives me an insight to a public institution conducting impact investments. The institution is funded by the Danish government; however, they view themselves as a private institution, due to the liberty they have in decision-making processes and the limited contact they have with the Ministry of Foreign Affairs of Denmark. Additionally, the IFU has existed for 50 years and thanks to the return of capital they have obtained from previous investments, the governmental funding they receive only make up for a limited percentage of the investments they make abroad. While I argue that they are public sector, their administrative and organizational structure are less bureaucratic and political than what one would find in a traditional governmental organization. Furthermore, they do not make development policies.

II. CONCEPTUAL & THEORETICAL FRAMEWORK

Following chapter is divided into three parts, which each will account for the concepts and theoretical framework of this thesis. The first part is an account for the concept sustainable development, which later will be used to put it into the perspective and context of the central question of this research. Hereafter, the part 'Globalization, Foreign Direct Investment and Development' will be an overall explanation of what globalization and FDI is, and how they can affect development. Finally, the third part of this chapter, presents of the theory of impact investing (and investments), how the tendency works and for what it works. The general findings of this chapter, will be gathered into a preliminary conclusion. Thus, the objective of this chapter is to determine if sustainable development, FDI and impact investing are linked or simply complement each other. This will be the foundation for the following chapter three.

SUSTAINABLE DEVELOPMENT AND GROWTH

"*Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs*." (WCED 1987, 43) The concept emerged from the findings of the World Commission on Environment and Development's (WCED) Brundtland Report 'Our Common Future', which investigated the concerns raised about the negative activity humans have had on the environment, and further, if growth and development was to remain unchecked, they would continue to be unsustainable. The report presented recommendations and proposals for long-term environmental strategies and cooperation between countries, regionally and internationally, to support the objectives of new development paths with regards to people, environment and resources. By 1972, the concept gained major international attention at the UN

Conference on Human Environment and is now a universally accepted concept, which is incorporated into political and commercial agenda, on various levels. (Sustainable Development Commission 2017, Imran , Alam and Beaumont 2011)

The discussion of sustainable development thus, consists of a vast amount of concerns – the aim is to secure economic and social development on a sustainable manner, collaborating internationally and throughout public and private entities. Thus, development and business should not succeed at the expense of the environment, people, and societies. This has, for instance, led to the well-known Sustainable Development Goals (SDGS) and the UN Global Compact.

The SDGS is a plan of action the UN has formed, to better the conditions for people, prosperity and the planet. The mission of the Division for Sustainable Development (SDS), is to promote and coordinate the implementation of development goals, that are internationally agreed upon. In total, there are 17 goals, all ranging from humanitarian, economic to environmental, in from where the UN seeks to battle these issues, hence *goals*. The first goal is 'no poverty', second, 'zero hunger' and third, 'good health and well-being', etc. (United Nations 2017)

The United Nation's Global Compact is the world largest sustainability initiative for businesses, that call for companies to incorporate principles on human rights, environment, anti-corruption and labor into their operations. *"… align strategies and operations with universal principles of human rights, labour, environment, and anti-sorruption, and take actions that advance societal goods."* (United Nations 2017) The SDDS are supported by the UN Global Compact, which has a version explained for businesses.

FOREIGN DIRECT INVESTMENT AND GLOBALIZATION: EFFECTS ON DEVELOPMENT

FDI

Foreign direct investment is defined as investments made by a (direct) investor into an entity in another economy than the one the investor resides in, with the objective to obtain a lasting interest in the entity (investee). Thus, the investor, depending on the degree of influence it has obtained from the investment, gains influence on the management of the enterprise, though with at least 10% obtained of the voting power. "*FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another country.*

The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used." (OECD 2013, 86) For example, 'Enterprise Medical X' from Denmark, the direct investor, lacks skilled workforce in its research and development unit, for a new product it is in the process to launch. After much research on where they could find the right workforce, with the needed skills, they choose to acquire a spin-off from 'University B' from Morocco, which becomes the direct investment enterprise. 'Enterprise Medical X' is now in control of, or at least has considerable influence over the decision making of the entity, 'University B' of Denmark. (Arki 2017)

A direct investor can be, and is not limited to an individual, a group of individuals, a public or private enterprise, or a group of enterprises or a government body. (OECD 2008, 49-50). Figure 1 below, highlights the basic types of investment enterprises, the principles for extending the relationship through ownership and the basis for extending the ownership through joint ownership. (OECD 2008, 55, Arki 2017)

Investing in another economy, can contribute with many advantages, especially in today's global economy and more so for developing countries. Primarily, FDI is a natural extension of the internationalization process that often sets off from export. As countries reach higher levels of development, the advantages most likely increases, and FDI can be pursued to access a market, to find resources, to reduce transaction and production costs or to acquire assets. Some of these assets, possessed by another firm, could be a recognized brand, production process capabilities or patents. (United Nations 2006, 103,142, Arki 2017).

Basic types of enterprises:

- A *subsidiary* is an enterprise in which the investor has control of more than 50% of the voting power;
- An *associate* is an enterprise in which the investor has control of at least 10% of the voting power and no more than 50%;
- *Fellow enterprises* are enterprises which do not have enough (or any) voting power in each other to constitute FDI influence but have a common parent.

Principles for extending the relationship through indirect ownership:

- A series of subsidiaries can continue as long as control exists at each stage in the ownership chain – a chain such as that in Figure 3.1 can continue indefinitely;
- Any subsidiary can extend the FDI relationship to an associate by owning from 10% to 50% of the voting power of that enterprise;
- An associate can extend the FDI relationship to another associate of the higher level investor only by owning more than 50% of the voting power of that enterprise. Such a chain of associates can be extended as long as majority ownership of voting power exists at each stage.

Basis for extending the relationship through joint ownership:

- Where the investor and its subsidiaries combined own more than 50% of the voting power of an enterprise, this enterprise is a subsidiary of the investor;
- Where the investor and its subsidiaries combined own at least 10% of the voting power of an enterprise but no more than 50%, this enterprise is an associate of the investor;
- Where an investor's associate and the associate's subsidiaries combined own more than 50% of the voting power of an enterprise, the enterprise is an associate of the investor.

FIGURE 1: DIRECT INVESTMENT RELATIONSHIPS (OECD 2008, 55)

One of the main reasons for engaging in FDI, is either for increasing or protecting profitability or/and capital value, which can be done by *"... either exploiting existing competitive advantage or to safeguard, increase or add to these advantages*." (United Nations 2006, 142) Not only does FDI benefit companies, but it is also significant for international economic integration. It can promote financial stability, economic development, and improve the wellbeing of societies and communities, with the right policy framework. (OECD 2008, 3) Thus, for development, or the continuous development of a country, FDI also has an important role in national and international economy. From the perspectives of a developing country, FDI is more productive than internal investments due to the 'spill-over effect'; transfer of technology, creation of jobs, high productivity, efficiency and competitiveness, which often are channeled through the advanced technology and management skills the investment brings. Furthermore, developing countries can benefit from FDI as it gives access to the international market, international currencies, and higher export resulting in economic growth and development. However, there is a direct link between the human capital and FDI's efficiency. This means that FDI can positively affect economic growth if the level of education exceeds a given threshold (Borensztein, Greorio and Lee 1995, 18-20)

GLOBALIZATION

As mentioned in the introduction, the technological progress in the past decades has been an accelerating factor for globalization, and the interconnectivity between countries it has brought with it. Basically, it means that societies, economies, and politics from one part of the world, can be affected by events happening in the other part of the world, as the world is globalized. (Baylis, Smith and Owens 2014, 9) "*... worldwide television communications, global newspapers, international social movements such as Amnesty International, global franchises such as McDonald's [...] the global economy, and global risks such as pollution, climate change, and HIV/AIDS."* (Baylis, Smith and Owens 2014, 9) are just some examples of the result of globalization. In addition to this, it worthy to mention online social media platforms such as Twitter and Facebook, which are making a whole other level of fast communication possible. Information run extremely fast, due to the social media platforms and smart phones. (Miller 2008) The most recent and relevant example is the leak of the so-called Paradise Papers, which has investigations worldwide. The leak of 13.4 million financial documents from offshore law firms, reveals the financial dealings of celebrities, business leaders, corporate giants, and politicians and has forced ministers, politicians, and prime ministers from offices. (BBC News 2017)

Taking a perspective of globalization in international political economy (IPE), globalization is referred to as being following processes:

1. Internationalization,
2. Technological revolution,
3. Deterriorialization, and
4. Liberalization.

Internationalization was the process of which the world was more *internationalized*. The increase in economic transactions across boarders that has been happening the past decades. The description of the technological revolution, is very literal. As beforementioned, this is a description of the technological advancements, that has allowed all sorts of communications to be carried out globally, and only limited by time differences. Finally, deterrioralization refers to the actual territories or/and boarders of states and to what extend these are breaking down, due to globalization *"... territorial distances, borders, and places influence the way people collectively identify themselves and act, and seek political voice or recognition."* Finally, the point liberalization, which is related to the increase in liberating markets and a *globalized world economy*. *"... government policies that reduce the role of the state in the economy, such as though the dismantling of trade tariffs and barriers, the deregulation and privatization of state enterprises."* (Baylis, Smith and Owens 2014, 252) Thus, there has been a change in institutions and rules, introducing a new scale of transnational economic activities in some sectors. This includes investments, production and liberalization of trade. (Baylis, Smith and Owens 2014, 252-253) In conclusion, actors in the world economy; firms, transnational actors, international organizations and states, are all facing challenges due to globalization. While the strong states seek to adapt and shape their institutions to manage issues they might have to challenge (such as powerful NGOs or globalizing firms), the weaker states are trying to overcome the increasing pressure and changing economic surroundings. (Baylis, Smith and Owens 2014, 256)

IMPACT INVESTING

This paragraph is an account of the theory of impact investing, Firstly, there will be an introduction of the historical context behind the concept, which will be followed by the general but important parts of the processes.

THE HISTORY AND EVOLUTION OF IMPACT INVESTING

Investing for development is a growing field with lofty expectations from both the private and public sector, due to its seemingly apparent potential to challenge social and economic issues, through innovative solutions, and generating financial returns at the same time. (Allman and Escobar De Nogales 2015, 1-2) With time, leading figures within the field including governments, recognized that the long tradition of donations and aid from governments and non-profit organizations (NGOs) was not enough to create long-term economic growth and alleviate poverty, alone. (Bugg-Levine and Emerson 2011, 21) While *impact investing* might seem rather logic at its first glance, stumbling upon its words and seeking to understand what it really is, shows how reality at times differs. The term was for the first time coined in 2007, out of a set of group discussions with 40 investors from all around the world, on how to solve social and environmental challenges with impact investments, and is today known as the Global Impact Investing Network. The group, invited by the Rockefeller Foundation, was also the first institutional investors placing equity into microfinance funds. Mutually for the investors was that they had all made impact investments before the term existed. (Bugg-Levine and Emerson 2011, 7, GIIN 2017)

Bugg-Levine and Emerson state that impact investing can be traced back to the seventeenth century and the religious Quaker community in England. Thus, the idea that investment decisions, apart from generating return of capital, also could have a positive impact on the wider world, has existed for centuries. The idea of impact investing reconnects with the Quakers in the way that they looked to link their purchase decisions and investments, with their values. Emerson and Bugg-Levine further link impact investing to the 1800s Shaker congregations that aligned their social values with the businesses they launched while funding religious communities. After the Second World War, the first tool for governments in the reconstruction of the damaged economies, was the establishment of the International Bank for Reconstruction and Development (IBRD). Today, this institution is known as the World Bank. As beforementioned, governments recognized that donations and aid alone, was not enough to spur long-term economic growth and development, wherefore the World Bank conducted intergovernmental impact investments, primarily for governments in Japan and Europe, according to the authors. They further state, that the World Bank group, after sixty years, *"… makes more than $60 billion in grants and highly concessionary loans to very poor governments and market rate loans to less poor governments."* (Bugg-Levine and Emerson 2011, 22)

The funding governments of the World Bank soon recognized the need for investment support to private companies, which in 1956 led to the launch of the International Finance Corporation (IFC) that invests directly into the private sector. This created a domino effect, where regional and national financial institutions, similar to the World Bank and the IFC, have been established – also in the private sector. The state-financed investment funds, which was embraced by national governments, are typically referred to as bilateral development finance institutions, and these include for instance:

Institution	Total Capital ($ billion)	New Disbursements, 2010 ($ billion)	Year Established
International Finance Corporation (multilateral)	61	7	1956
FMO (Netherlands Development Finance Company)	7.8	1.4	1970
DEG (German Investment Corporation)	7.2	1.6	1962
Overseas Private Investment Corporation (United States)	7.1	2.4	1971
Commonwealth Development Corporation (United Kingdom)	3.8 (2009)	0.5 (2009)	1948

TABLE 1: TOP FIVE DEVELOPMENT FINANCE INSTITUTIONS, BY CAPITALIZATION, 2010 (BUGG-LEVINE AND EMERSON 2011, 24)

- the British Commonwealth Development Corporation (CDC), which promotes agriculture and industry in poor parts of British colonies,
- US Overseas Private Investment Corporation (OPIC), that facilitates U.S. company investments in emerging markets, and the
- Chinese-Africa Development Fund that capitalizes African investment projects, though joint ventures, and Chinese companies. *(Bugg-Levine and Emerson 2011, 23, Höchstädter and Scheck 2015, 450)*

Bugg-Levine and Emerson display the top five development finance institutions and the years they were established, on **Error! Reference source not found.**, above. With regards to investments funds from the private sector, a number of mainstream financial service companies have taken a place in the field. Goldman Sachs, which engages as investors, as they invested in the Rikers Island Social Impact Bond, Deutsche Bank's Impact Investment Fund, which launch funds and J.P Morgan, which conducts research of the market, are some few examples. (Höchstädter and Scheck 2015, 450) This illustrates how both the public and private sector has embraced the idea of impact investing and the mission to activate this approach for elevating social and economic development in emerging markets and the poor parts of the world. (Bugg-Levine and Emerson 2011, 23)

During the 70s and 80s, impact investing can be traced through the environmental movement, the anti-apartheid divestment campaigns, socially responsible investment movements and the fair-trade consumer, again highlighting how impact investments have been played out, in one form or another, globally for centuries. (Bugg-Levine and Emerson 2011, 5-6) But it was during the 2008 financial crisis, the concept gained its stronghold and triggered the largest impact investments in time. (Bugg-Levine and Emerson 2011, 11) In this epoch, governments and pioneering impact investors worldwide recognized the need for innovative means to protect social stability and jobs. They invested in the basic tools of impact investors, namely equity investments, guarantees and loans, in tens of billions. This was the first waves of the so-called impact investment movement and the forces that continues to grow:

- *"With gathering intensity, wealthy investors and philanthropists have become impatient with old approaches in the face of intractable and increasingly visible environmental damage and poverty.*
- *A new generation of business and socially savvy entrepreneurs is launching ventures across an array of geographies and sectors that creatively structure investment capital to tackle society's challenges and pursue new market opportunities.*
- *Cash-strapped governments are redefining their relationships with private business as demographic realities force a reexamination of fundamental components of the social contract.*
- *The rise of online social networking platforms creates the potential for thousands of investors to talk, share, and engage with each other as they identify, vet, and place investments in social entrepreneurs the world over." (Bugg-Levine and Emerson 2011, 11-12)*

Emerson and Bugg-Levine highlight how this disruption might be simple but not easy, due to the divided approaches in our system that separates profit making in one hand and social and environmental problem solving in another hand. (Bugg-Levine and Emerson 2011, 12) This will be described in further details in the section of *Blended Value* on page 21.

THE DEFINITION

While there is a large variety of innovative approaches and practices aiming to battle social, economic, and environmental challenges, impact investing is one of many in the field, which yet lacks a uniform definition and a conceptual clarification. The GIIN, that initially coined the term in 2007, defines impact investing as *"investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."* (Allman and Escobar De Nogales 2015, 3, GIIN 2017). According to Bugg-Levine and Emerson, the core of impact investing lies around the orientation of the concept of *blended value,* which focuses on combining profitability with social/economic/environmental benefits, with a business model. This will allow it to *"… maximize the total value creation potential and performance of organizations (whether philanthropic, below-market or hybrid) and how best to maximize the total performance of capital (whether philanthropic, below-market or market-rate risk adjusted capital; with returns which are financial and social/environmental)".* (Emerson 2006-2017) Consequently, the business model of any organization, whether for-profit or non-profit, should be formed with the vision and incorporation of maximizing all potential values, hereunder profitability and social/economic/environmental impact. Keith Allman and Escobar De Nogales argue alike; impact investments can take many forms, but imperative for the concept is the shared idea that capital can be used into an entity that provide a service or product – does good – thus, offering social impact along with generating a financial return. Hence, impact investing, as such, connects mainstream financial decision making with philanthropic ideas. Most commonly, however, impact investments are conducted in emerging markets (Höchstädter and Scheck 2015, Allman and Escobar De Nogales 2015).

The difference between impact investors and traditional investors are the investment motivations, return expectations and investment holding periods. Generally speaking, all forms of investments contribute to development by, amongst other things, creating jobs, transfer of know-how, and payment of taxes, however, impact investment is closer to the action of generating a positive impact. This is due to both the intention and incorporation of positive value into the business model. For instance, the return expectations for an impact investor is, as beforementioned, not only to generate a financial return but also to create a positive impact, whether it is social, economic, environmental, or all three at once. The intention of the investor is also key in this comparison as *"… impact investors intend to create positive impact alongside various levels of financial return, both managing and measuring the blended value they create."* (Bugg-Levine and Emerson 2011, 9) In practice, this means that impact investors focus on direct lending, private equity and venture investing, as they place capital directly into projects and companies. At the same time, the intentionality that lies with impact investing can make the action itself insecure in delivering social or financial returns. (Allman and Escobar De Nogales 2015, 3-9) The obvious question that now arises is whether all venture or private equity investments are impact investments, to which the answer is no, according to the authors. Again, the intention of the investor is key and underlines the essential difference. Allmann and Escobar state, that simply investing capital in a low-income country does not make one an impact investor. As such, investment funds that target small businesses in South East London, might as well be impact investments. (Allman and Escobar De Nogales 2015, 3) Therefore, impact investments are not limited to geographic location. But investing, while actively implementing strategies that aim to generate a positive impact rather than for exploiting poor consumers, is the key difference. Also, treating impact reports as a central business management practice, is vital in the pursuit of a successful impact investment. Treating impact investment and impact reports, from an interest in marketing purposes, external reporting and exploitation of poor consumers or/and countries, makes the difference, not only with regards to the intention of the investor, but here also with his or her business activities, operations and final outcome of those. That is, the level of intention the investor has, and the degree to which he/she actively incorporates strategies for positive impact into the business model, determines the success of the outcome. On the contrary, an investment in clean energy, that unintentionally has a critical effect on a natural habitat, could destroy rather than create the intended value, making these distinctions important for an impact investor who is seeking to develop "*... strategies to allocate capital where it can generate the most integrated, blended value."* (Bugg-Levine and Emerson 2011, 10) The idea of blended value will be accounted for in more details, later in this paragraph.

To fully understand what impact investment is, it is important to clarify the difference between mainstream and impact investments, while there has been an introduction to mainstream investments in chapter 2.

Impact investments can be as straightforward as simply e.g. investing capital for shares of equity in a project or company, or it can be more complicated, as e.g. a convertible debt structure. *"With all these options, the two primary forms of investment into social enterprises are debt and equity, mostly in emerging markets."* (Allman and Escobar De Nogales 2015, 3) As such, impact investment can vary in its forms. Nevertheless, debt and equity into social enterprises are the two main investment forms, and are mostly conducted in emerging markets, according to Allman and Escobar. (Allman and Escobar De Nogales 2015, 3-4) Escobar De Nogales and Allman, clarify the difference with following examples: *"A healthcare company that provides high-quality, affordable tiered services for low- to middle-income patients, for-profit…"* (Allman and Escobar De Nogales 2015, 4) and *"A healthcare company that builds clinics for wealthy clients and donates 1 percent of profits to charity..."* (Allman and Escobar De Nogales 2015, 4) In the first example, the desire of the healthcare company is to create a social impact, and this is engrained in the business' service, operations, and products. They *provide 1high-quality, affordable tiered service for low- to middle-income patients.* This is more likely to be an impact investment. The last example, however, is most likely not an impact investment, as they make a donation, which does not depend on being engrained into a business model and its operations, in order to be executed. (Allman and Escobar De Nogales 2015, 4) Rather, this could be part of branding and marketing the company to e.g. improving customer relations.

Blended value

Jed Emerson's *blended value* is at the core of impact investing and is the *product* of the *action* of impact investing: *"If impact investing is what we do, blended value is what we produce".* (Bugg-Levine and Emerson 2011, 10) The authors describe, that creation of value naturally occurs when any organization acts, or investor invests, to pursue their mission(s) i.e. all organizations create value that contain social, environmental, and economic components, automatically, as illustrated in Figure 2, below.

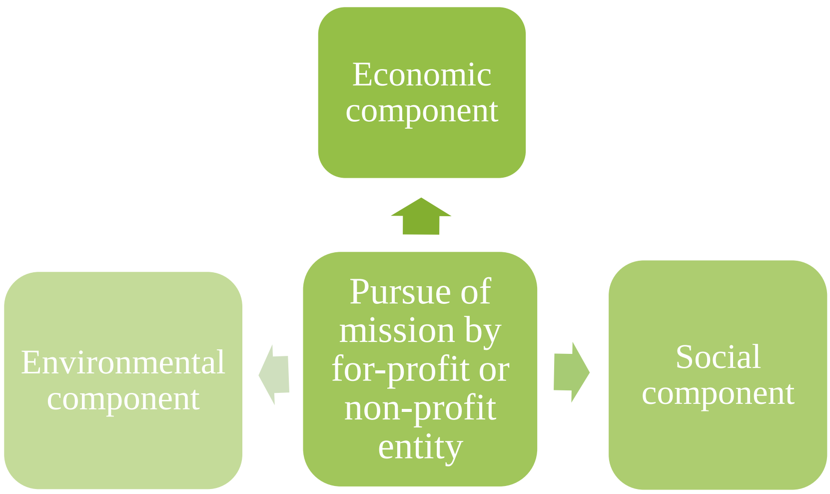

FIGURE 2: NATURAL VALUE CREATION

However, the majority of investors and business managers still operate in a bifurcated system, which divides value into two different areas:

- economic value, created by for-profit companies, or
- social value, created by NGOs or governments. *(Bugg-Levine and Emerson 2011, 10)*

The lack of managing for blended value on a strategic basis actively, means that the opportunity to exploit the total value potential managers could create, will be missed.

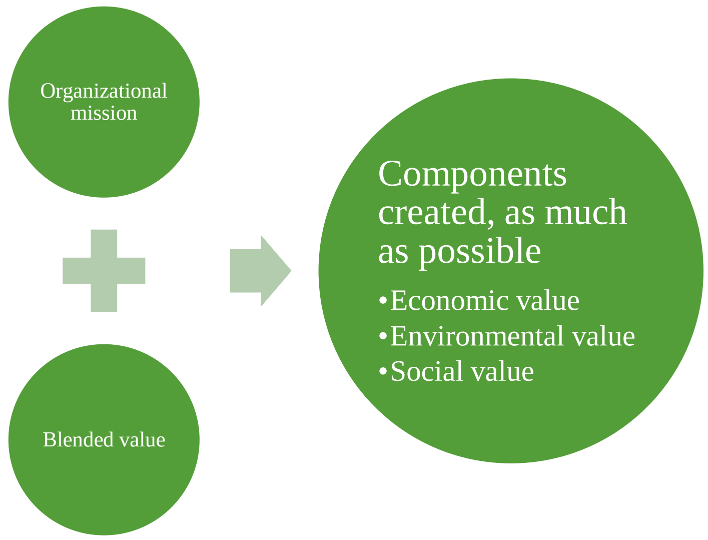

FIGURE 3: ILLUSTRATION OF BLENDED VALUE INCORPORATED

Thus, simply focusing on generating a financial return will result in less value creation of social, economic, and environmental elements and positive impact thereof, than what could potentially have been. The logic is the same the other way around; only focusing in e.g. social impact, without considering how to generate profit, the investor will not be able to achieve the full potential of financial return.

To Bugg-Levine and Emerson, the concept of blended value is its own distinct force, and is a nondivisible combination of the three above written elements, which can be sought, measured and understood. (Bugg-Levine and Emerson 2011, 10) *"Blended value is the recognition that capital, community, and commerce can create more than their sum and is less a math exercise of zero-sum pluses and minuses than a physics equation of an expanding universe of investments in organizations, people, and planet."* (Bugg-Levine and Emerson 2011, 11) Managers, thus, should focus more on the concept of blended value and recognize that capital, commerce, and community can create more together than what might be the first assumption of the organizational mission. All the elements and components should, thus, not be divided into their 'relevant' sector, organization, or institution. Rather, they should be integrated into each other, as they will not lose their attractive attributes because their core elements combined can create a stronger, newer, and more nuanced capital and organizational structure, naturally. (Bugg-Levine and Emerson 2011, 11) Impact investment has opened a different path to mobilize institutions and investment practices, which in a way that can eliminate the area, in which the two normally operate separately (cf. for-profit organization's focus on economic value and governments/NGO's focus on social value, as pointed out on page 22).

This could leave the two sectors to change the current system, and together follow each other in the pursuit of blended value. Imagining a non-bifurcated world where both the public and private sector has blended value in focus:

- A novel system will transpire, because a new class of social enterprises and investors will organize and maximize the full potential of blended value, aiming to equally create positive impact and profit.
- The contemporary laws and regulations, in the bifurcated world, define and protect traditional investors, entrepreneurs and philanthropists clearly, but when looking to maximize blended value they are ill suited to understand and guide impact enterprises and investors. Therefore: "*Governments will determine how to harness impact investment to complement public resources in capitalizing the solutions to society's most pressing challenges*." *(Bugg-Levine and Emerson 2011, 13)*
- Leadership development systems and support services will not have distinctive pathways for people to choose between careers that are either charitable or in business. New approaches will be established to find and develop professionals, who wishes to create economic/social/environmental impact, applying their business knowledge.
- Applicable measurement systems and a common language will be created to steer attention and capital to enterprises that are most successful at creating social value and profit together.
- The capital markets will operate on connecting social entrepreneurs with impact investors, instead of the separate facilitation the exchange between investor and business and donor and charity, as we see today. *(Bugg-Levine and Emerson 2011, 12-14)*

However, Bugg-Levine and Emerson state that they do not argue that the bifurcated world will dissolve. Simply, they discuss that some of the already established systems will adapt to the world of blended value, while at the same time, for some people, investments and charity continuously will make sense kept separated. (Bugg-Levine and Emerson 2011, 14)

INVESTING FOR DEVELOPMENT

Over several regions like Africa, Latin America, and Asia the sectors of healthcare, financial services, and agriculture have been shaped by development-focused investments. By the time governments and organizations recognized the need to mobilize resources and partner with the private sector (and the other way around) the pioneering approach of complementing the skills, knowledge, and experience of each entity, sparked the blooming of a complex ecosystem of public and private activities. Loan guarantee companies, private equity firms and bond-issuing special investment vehicles, are some of the various financial institutions and investments products that are moving into developing countries and the field of impact investing. Bugg-Levine and Emerson exemplify with investment banks like Morgan Stanley and Goldman Sachs, and the opposite; the philanthropists who also are making taking use of impact investing to complement their grant-making activities, Bill Gates and George Soros. (Bugg-Levine and Emerson 2011, 21-22)

With the increasing interest and a paradigm shift in development politics from the public sector, private philanthropists are also taking part in the field of impact investing. Today, the billions of dollars contributed by private philanthropists might be small when comparing to the capital flow from international and local capital markets, but none less still very important. The field lets the investors take advantage of the operating context, as for instance, George Soros' Soros Economic Development Fund, which commits up to USD200 million to impact investments. Pierre Omidyar's[6] 'philanthropic investment firm, Omidyar Network, has provided grants and impact investments, up to almost USD500 million. (Bugg-Levine and Emerson 2011, 25) These examples illustrate how investors can take advantage of the operating context of impact investment, as they possess the experience of for-profit business models, and have complemented these for their international development grant making. Additionally, more than USD1.5 billion have been generated in annual revenues by portfolio companies in Asia and Africa, which again have been re-invested. (Bugg-Levine and Emerson 2011, 24-25) Thus, some of these investors are at the emerging industry segments and frontier markets - not awaiting opportunities at emerging market but *"… creating new fund management companies where none exist."* (Bugg-Levine and Emerson 2011, 25)

THE CHALLENGES TO INTEGRATING PERFORMANCE

[6] The founder of E-bay. (Bugg-Levine and Emerson 2011, 25)

Apart from the usual challenges traditional investors meet, such as sourcing and managing deals, impact investors face more and unique challenges, as they expect both a financial return and a positive impact. *"As if making traditional development assistance work was not hard enough, impact investing faces additional and unique challenges."* (Bugg-Levine and Emerson 2011, 26) For an impact investor to secure a positive performance, Bugg-Levine and Emerson presents following questions, that could be asked:

- *"What business model works best to ensure a fund manager will make the most productive investments that generate the most blended value?*
- *How can an investor know her capital is targeted to where it's needed, and not just where it's easiest to invest?*
- *How will we know an investment is in fact an impact investment?" (Bugg-Levine and Emerson 2011, 26)*

DEFINING THE BUSINESS MODEL

"The core promise of impact investing for development is that we can marry the incentives and discipline of private investment to the passion and purpose of development aid." (Bugg-Levine and Emerson 2011, 27) Marrying incentives, disciplines, passions, and purposes from two different fields, which normally has great strategic and operative differences, can create an unclear path in the pursuit of reaching the final goal, whether it is generating profit or securing development - or as in the case of impact investment, both at the same time. An issue that followed many of the early development-oriented impact investment funds, was exactly that the above written. They were close to the government aid agencies that finally capitalized them, making the creation of a good sustainable organizational structure harder to reach, as the mentality of a donor agency at times did not create effective results and had slow decision-making, due to the bureaucratic nature of a public organization. Furthermore, Emerson and Bugg-Levine state that investment mandates that are politically motivated, have been proven to be financially unsustainable in the long-term. (Bugg-Levine and Emerson 2011, 27) These issues resulted in an increasingly common implementation of private sector fund management structures, in the government-run business models, which therefore could allow them *"… to harness the scaling capacity and incentives that come from enabling management teams and private investors to receive an appropriate level of profit from the fund's success."*. (Bugg-Levine and Emerson 2011, 27) Due to this, many private philanthropic organizations have spun out as commercial operations. The authors exemplify with Growth Finance

(GroFin), which has become leading in the small and medium sized enterprise (SME) lending sector across Africa. The organization, which is a spin-off from Shell Foundation's low-cost capital and in-kind subsidies, now manages around USD250 million, and has *"... built an operational base and expertise that could ultimately see it become a viable investment for institutional money managers seeking exposure to African small-scale debt.*" (Bugg-Levine and Emerson 2011, 30)

III. BACKGROUND

*Following chapter will present an account for the background of Nordic Impact Funds and the IFU, respectively. The analytical parts are based on the empirical data, which are collected from the website content and interviews of the representatives Lisbeth S. Zacho (Nordic Impact Funds) and Rikke Carlsen (IFU). This will give a thorough understanding about the funds and the methods and practices they conduct to mobilize private sector resources in order to realize the developmental work they conduct in developing countries and emerging markets. Further, the critical assessment and discussion will question these methods and practices, along with the objectives behind, which will be summed-up in the paragraph titled Preliminary Conclusion***.**

NORDIC IMPACT FUNDS

Nordic Impact Funds, established in June 2016 by Lisbeth S. Zacho, became the first private financing fund in Denmark to operate with impact investments. Zacho, an expert in financial management and anti-corruption, has more than 10 years of experience in international development, from SOS Children's Villages, the International Monetary Fund (IMF) and the World Bank. Moreover, she has more than 10 years of financial experience from the Danish Central Bank as Head of Financial Analysis & Compliance, Deputy Government Debt Manager, and Head of Investments. (Zacho 2017, 00:16-01:12, Nordic Impact Funds 2017). In partnership with Humphry Wattanga, CIO of the fund, their mission is to manage impact investments by capitalizing enterprises with a scalable and economically viable model, to improve quality of life for people living in East Africa. (C. V. Flensborg 2017, Nordic Impact Funds 2017) CIO, Humphrey Wattanga, an expert in public private partnerships and innovative social finance, has an additional 15 years' experience in structuring impact investments and social finance, in South and East Africa. (Nordic Impact Funds 2017)

To Lisbeth Zacho, private solutions create great opportunities for social and economic development and a higher level of success, in comparison to traditional forms of aid. *"... I discovered that there were a lot of problems with this type of doing good [...] it would often create a dependency with beneficiaries of the donations."* Also, scaling anything was proven difficult, as she argues that once a donation was spent there automatically would emerge a need to raise capital again. And if there was a need to scale a program – again there would emerge a need to raise double the amount of funds. (Zacho 2017, 00:03-01:04) Hence, it seems that traditional forms of aid, such as donations and philanthropy, are less efficient and effective than commercial solutions that integrate blended value into their business models. The life expectancy of a commercial business is, roughly said, more sustainable as there is a steady income flow. It lasts longer than a donation, due to the necessity for the business to generate a return in order to sustain its lifecycle. The business has the opportunity to re-invest and stay self-sufficient, whereas donations does not generate any forms of return. Rather, its lifecycle is plain and a never-ending spiral between fundraising and implementing the received donations into programs, over and over again, as illustrated on Figure 4 and Figure 5.

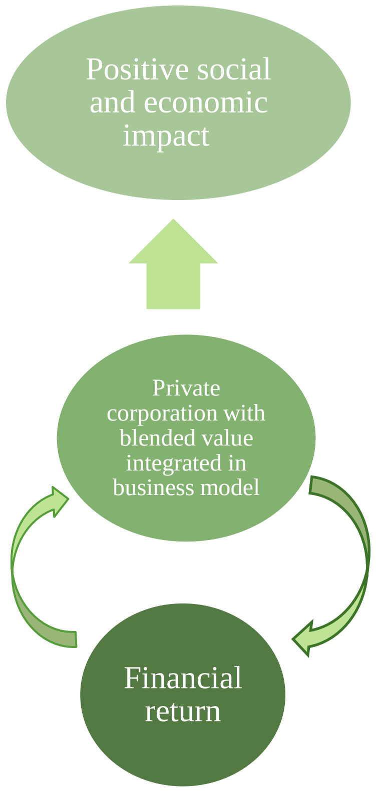

FIGURE 4: LIFE CYCLE OF INCOME OF A COMMERCIAL BUSINESS

The development aid and work carried out by public institutions[7] in developing countries and emerging markets is, however, not to be left without, according to Zacho. As beforementioned, she maintains the importance of private solutions to battle social and economic issues, however, expressing that the duty barer remains governments. Thus, private solutions complement well in countries with failed or limited state agencies *"… private solutions can definitely fill a gap, and is currently filling a huge gap […] all over Africa […] I think almost a quarter of education is private."* (Zacho 2017, 14:07-15:27)but the ultimate responsibility still lies with the governments and its respective institutions, Zacho argues. She further exemplifies with the educational challenges Africa face. In this sector, the private businesses' continuous innovative ways to develop new solutions to fill *the gap* missing, has contributed with the development of *"… digital ways of addressing the needs and reaching children, who have not earlier been in school…"* (Zacho 2017, 15:27-15:52) It is apparent that there are many opportunities to the involvement of private solutions, however, it is still necessary that public entity maintain its regulatory role and thus, its ultimate role as a duty barer. In sectors like e.g. health and education, among other things, the public entity must ensure regulations for the system to work the best possible, and also ensure some sort of quality, by providing certificates i.e. for teaching or within medicine. However, *"… it would be ideal to have the public-private partnerships. And sometimes you see those happening after the private solutions have been brought to a certain stage. Then you see governments opening their eyes to this new solution […] then you see public-private partnerships*

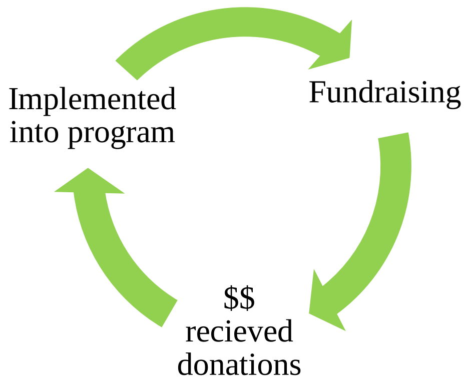

FIGURE 5: LIFE CYCLE OF A DONATION

[7] The developmental work conducted by public institutions here, I refer to those of states that carry out developmental policies of a given government, to participate and contribute to developmental work in another country.

forming." (Zacho 2017, 16:09-16:37) This is proof of transfer of know-how from the private business to the public entity, and therefore part of development.

Another thing, that is much discussed and argued as being one of the major reasons to challenges limiting the continuous development of third world countries, is corruption. According to Zacho, it is necessary to increase public-private partnerships, however: *"Corruption is a huge, huge problem [...]it exists very much in the public sector in African countries... much more than in the private sector."* (Zacho 2017, 17:12-17:42) As, Zacho express this, it is clear that she, and therefore Nordic Impact Funds, have the *intention* of *doing good*, because this has not left them for seeking to conduct investments in Africa.To the fund, socially dedicated entrepreneurs that lead financially viable businesses are vital in terms of accomplishing social impact that are large scale, long term and self-sustained. They further state that these businesses can help providing the goods and services of choice of and for the *underserved* people, along with jobs and an income. (Nordic Impact Funds 2017) Hence, Nordic Impact Funds' mission is to create a positive impact, though the investments in a business, for the poor segment in East Africa, again proving the *intention* of creating impact is there. And apart from investing in businesses that produce goods or services that satisfy the basic need of the segment, it can also be an impact *"... that they can get access to markets, so that they can raise their income – access to better inputs, so that they can increase their creativity."* (Zacho 2017, 13:23-13:35)

Currently, Nordic Impact Funds is in the process of raising funds and they have yet to place capital into companies or projects. They look to raise around EUR50 million, in the first round, and around the first closing they will start investing. (Zacho 2017, 06:11-06:33) Therefore, they have been approaching a variety of investors, hereunder foundations, development banks, pension funds, family offices and private people. Thus, they are in the beginning phases of *sourcing* and how they currently mobilize the private sector resources, to contribute to impact and development. Practically, there are some challenges in the sourcing process, due to the young lifecycle of Nordic Impact Funds and because impact investing is a *"... niche kind of thing for them*." (Zacho 2017, 06:34-06:55). This indicates the importance of trust and trustworthiness of both the concept in itself, but also the fund.

Regarding screening and selecting companies that might be eligible for their investments, Zacho state they have scanned *"... the whole East African market [and been] selecting, visiting different companies, seeing how their model works and see what type of people, that are working there.*" (Zacho 2017, 07:18-08:07) Also, part of the screening process is reviewing the business model, the management, and how it works together as a whole, and finally, how they can measure an impact, by the respective project company. (Zacho 2017, 07:18-08:07) That is, Nordic Impact Funds screen and scan the market for potential companies that are eligible and fulfill the stated criteria for receiving investment, before fundraising; "*So, once we have closed the fund, we will start investing into some of these.*" (Zacho 2017, 08:07-08:37)

To receive investments from Nordic Impact Funds, there are eight specific criteria the investee must fulfill, as demonstrated on their website (Figure 6) and as listed below.

- *geographic location,*
- *sector,*
- *stage,*
- *size,*
- *management,*
- *impact,*
- *return, and*
- *scale.*

Starting with describing the first investment criteria listed, Nordic Impact Funds require that the project company must be *"Located in or have significant operations or impact in East Africa".* (Nordic Impact Funds 2017) This regional and geographic location is, firstly, selected on bases of both Zacho and Wattanga's experiences obtained from their former positions; Lisbeth, from her work in SOS Children's Villages, whose focus countries were in East Africa and Wattanga, as his experience also has been in the region, respectively. Secondly, Lisbeth Zacho in her interview further explains that East Africa currently, has many growth opportunities and that it is one of the fastest growing regions in the world. She further adds that the region is becoming more stable, hereunder also economically, with exception of Somalia and South Sudan, which Nordic Impact Funds not will go into currently, as *"That's too difficult."* (Zacho 2017, 10:15-10:23) This indicates that Nordic Impact Funds are considering measurements, that also are found in the mainstream investment process, as to whether or not to enter into investments a region that is less stable than, for instance, Europe and does leave public entities solve the issues in Somalia and South Sudan, as they *will not go* into them. According to Zacho, the region's current stage of stability is due to its diverse economies, and its independence from natural resources and oil, compared to West Africa. Notably, the investment environment has also improved significantly the recent years, which may be due to improved political will and decisions favoring e.g. FDI and trade liberalization. She further states, that the good investment opportunities for the fund also are due to the large amount of people living in poverty, and continues *"…the amount of population in low-income segments is so enormous … I mean it's the majority of the population. I think, that they have less than, let's say USD5-8 […] there is a lot to do for that part of the population…"* (Zacho 2017, 10:48-11:16) Thus, Nordic Impact Fund's intention is not only to focus their investments into the region, aiming solely on generating financial returns, but also to create positive impacts. Taking this further to a look on the screenshot from their website, it also makes the argument stronger.

When looking at the content on their website, the first thing that is noticed is the title of the web-page, *Investment Criteria*, due to the bold typography. This because it has to be clear to the reader, what the content is about – and what the *criteria* is, in order to receive investments from Nordic Impact Funds. However, reading from the left to the right, and commonly in lines, following a chronological as would be if reading a book. Therefore, the set-up of the webpage and the order in which the criteria are placed, might be an indication of the importance of them. I.e. the *Geography* is most important, followed by *Sector*, *Stage*, *Size* and so on and so forth. Hence, as expressed by Lisbeth during the interview, and the content of the website, hereunder the actual visualization of the structure of the criteria, confirms that the fund targets East Africa. Of course, this does not equal that the criteria placed in the bottom to the right on the webpage, *Return* and *Scale* does not matter – it simply indicates that it is more important for the fund to make sure the audience understands that the investments and operations must impact East Africa.

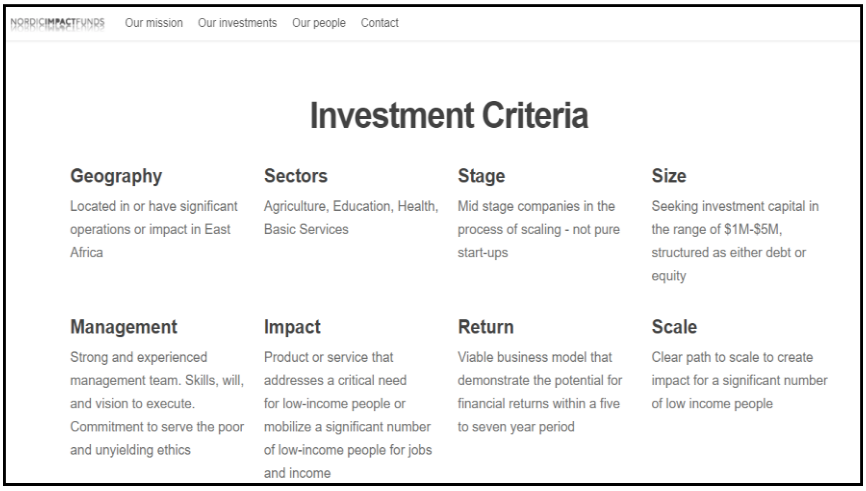

FIGURE 6: SCREENSHOT FROM 11/18-2017 (NORDIC IMPACT FUNDS 2017)

Nordic Impact Funds specifies four sectors the investee and its company must operate in, which are education, health, basic services and agriculture. While ordinary investors also can operate within these sectors, it is somehow logic that an impact investor chooses exactly these as well. They are topics already in relations to SDGS because there are still many people who do not have access to, yet.

The fund does not invest in pure start-ups, rather they select mid-staged companies that are in the scaling process and seek investment capital in the range of USD1-5 million. The investment capital must be structured as either equity or debt and the business model should demonstrate potential for a return within a five to seven-year period. (Nordic Impact Funds 2017) This demonstrate several issues for discussion. Firstly, that the fund does not invest in pure start-ups but rather mid-staged companies, indicate a reflection of wanting to minimize the risk of the investment. Mid-staged companies have succeeded to a level, that Nordic Impact Funds feels secure to place investments into it. This can also be that this reassures Nordic Impact Funds, that management skills are more experienced, wherefore they do not have to use much time in changing organizational structures and activities. Secondly, the criteria of the investment capital that must be either equity or debt, so that Nordic Impact Funds can take over ownership of the company, as Zacho states *"So, we will take ownership in the companies that we invest in. We are active, helping them to grow and create impact over the next 7-8 years, probably."* (Zacho 2017, 11:29-12:21)Thus, the way they will conduct investments is to invest substantial equity or debt to take ownership of the company in order to actively help create impact and grow the company, within seven to eight years. When they have elevated the impact and company to a certain stage, they will look to exit the investment, by finding new buyers to take over the ownership, and give the money back to the investors, from whom they have raised funds. In addition to taking over the ownership through equity and debt, Lisbeth also adds, that Nordic Impact Funds also will provide loans to companies. However, they will still actively provide guidance and help, without taking over the ownership. (Zacho 2017, 11:29-12:21) Explaining that they still actively will provide guidance and help to companies without taking over the ownership, and with having in mind that Nordic Impact Funds has a great intention to create development in East African countries, means that they are willing to share know-how to where it is useful, and to where they target impact to be done. This, is a great advantage for the company they collaborate with, as they can be introduced to more knowledge, guidance and new in-put, which essentially can affect its operations positively.

The criteria and expectations of *management* and *scale* consist of essence of the blended value, as presented by Emerson and Bugg-Levine, on page 21. Stated on the website, this is clear under the description for e.g. the *management* criteria; *"Strong experienced management. Skills, will and vision to execute. Commitment to serve the poor and unyielding ethics."* and under *scale* *"Clear path to* *scale to create impact for a significant number of low income people."* (Nordic Impact Funds 2017) The description of *impact* constitutes that the company/investee must provide goods or services *"... that address a critical need for low-income people or mobilize a significant number of low-income people for jobs and income."* (Nordic Impact Funds 2017) While the criteria are stated on their website, Nordic Impact Funds is not clear about the extent that is expected regarding social/positive scale. It is therefore not easy to determine where the base line is drawn from, due to the generalist discourse of the description of criteria. For example, a project company must *"mobilize a significant number of low-income people for jobs and income."* (Nordic Impact Funds 2017) *Mobilizing a significant number* is a rather open measure – how much is *significant* to Nordic Impact funds and when talking about jobs, do they expect direct job creation or indirect – and how many?

With regards to impact investing being a tendency or a concept that has come to stay, Lisbeth argues that it defeneantly not is a tendency. Rather, she believes that it is a great complementary practice to aid, donations, and regular investments. *"... it's more directly targeting the challenges [...] the world is facing right now. Being environmental or social. Basically, you see the challenges – the social and environmental challenges of the world - you see them as 'this is opportunities."* (Zacho 2017, 29:36-30:30) That the investor sees the environmental and social challenges of the world as opportunities, can both be positive and negative. Beginning with the positive; it can be an incitement, attracting more investors to this field. The UBS-report whose findings are presented in the article "Millennials are driving a shift in how the ultra-wealthy manage their money" there is an increase of interest in impact investing. This is because the practice makes it possible to make good things, while doing good. Thus, referring back to the positive thing – nobody hates to do good. The negative, however, is that it might also attract people/companies, that look to exploit that doesn't always have the right intentions, because this is still happening regardless of the many forces and programs there have been implemented to battle it, e.g. ethic codes, UN Global Compact and anti-corruption standards.

Preliminary Conclusion

In conclusion, Nordic Impact Funds is a private financing fund, that place impact investment into companies or projects that can generate a significant positive impact in East African Countries. The fund has eight criteria, that the company seeking the investment, must fulfill in order to be able to receive an investment from the fund. These are geographic location, sector, stage, size, management, impact, return and scale. Each criteria is explained in more details as for instance that the size of the investment, the company should be looking for, must be in the range of USD1-5 million. Furthermore, that the investment must be structured as either debt or equity. That is so that Nordic Impact Funds can take over the ownership, in order to help grow the business and implement strategies in order to create impact. This means that the fund acts as active investors.

Nordic Impact Funds is currently rising funds, and have therefore not conducted any investments. Thus, they are *screening* the East African market for potential businesses they can acquire, and when they have reached enough funds in the first closing, they will start to invest. They have been *sourcing* by means of actively contacting pension funds, family offices, private persons, etc. and there is a tendency that, especially the pension funds, are more hesitant to investing in Nordic Impact Funds for two reasons. The first, because it is a very new fund, and there is a lack of trustworthiness towards them – meaning, that the pension funds does not know them, and therefore, they will be risking their capital. Additionally, that Nordic Impact Funds has yet to prove that they can generate the financial return, so that investors are secured to get their money back. Secondly, the pension funds has expressed to Zacho that it is a *niche kind of thing* for them – so this proves a lack of knowledge about impact investing, from the pension funds. They simply do now know what it is.

INVESTMENT FUND FOR DEVELOPING COUNTRIES (IFU)

The IFU is a finance institution established by the Danish government in the late 1960s, and was first known as IFU Classic. (Carlsen 2017, 03:28, 03:59-04:36). Its headquarters is located in Copenhagen, Denmark, and its additional 10 offices are placed in Danish representations in Africa, Latin America, Asia and parts of Europe. (IFU 2017)

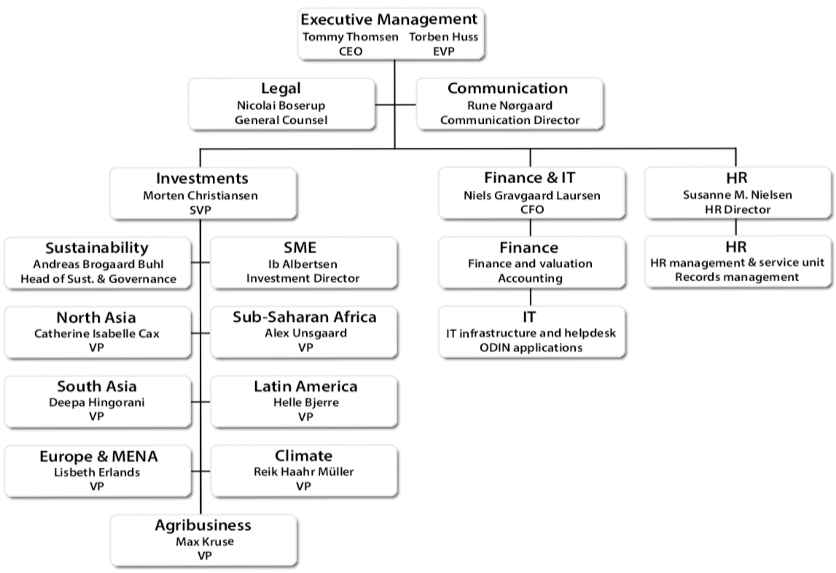

FIGURE 7: ORGANIZATIONAL STRUCTURE OF THE IFU (IFU 2017)

The day-to-day management is led by the fund's CEO, Tommy Thomsen. Its board of directors is appointed by the Minister for Development Corporation. (IFU 2017) Additionally, an observer from the Ministry of Foreign Affairs of Denmark is appointed to observe and attend the board meetings, but does not have voting rights. (IFU 2016, 1) This therefore means that the IFU is a public financing fund. However, interviewing Rikke Carlsen, she found it hard find whether IFU is part of the public or private sector. *"I think we consider ourselves as being private. It's these grey zone […] We tend not to say if we are private or public, because we just say that we are a state-owned company."* (Carlsen 2017, 16:58-17:28) She further states, that the board are private persons and there is an observer from the Ministry of Foreign Affairs, which does not have voting right, as before mentioned. This indicates that the IFU is less bureaucratic than would be the assumption as explained in the theory section of impact investing (Background). Thus, the commercial expertise and the less political and bureaucratic environment, must make the decision-making and practices more effective.

The organizational structure of the IFU is hierarchically built, and is divided into four branches, as depicted on the organizational diagram on Figure 7, above. As beforementioned, the CEO carries the responsibility of the whole organization, along with the executive vice president (EVP), Torben Huus. Below the executive management comes Legal affairs and Communication. Below Communication, to the right, comes Finance, IT and HR. More interestingly, on the left side, is the responsible of Investments, which is right below the executive management. From here, comes Sustainability, SME and the regions where IFU carries out their operations. Thus, each of the operational areas are divided into geographic regions and focused funds (climate and agribusiness) and are all aligned with sustainability. This indicates that the investments might be more important than the sustainability activities. If they would have been equally favorized (cf. blended value) they would have been displayed on the same level. Therefore, this might have an effect on the positive impact the fund aims to generate in the host countries the fund operates in.

As beforementioned, the financing fund was originally established by the Ministry of Foreign Affairs of Denmark as IFU Classic, to carry out the developmental policies of the government. Its initial mission to both generate development and financial return has remained to this date. During the course of the years, more and more initiatives, however, has been established under the fund, to which it acts as fund manager. The affiliated funds are the Danish Agribusiness Fund (DAF) and Danish Climate Investment Fund (DCIF), which are partly supported by the Danish government (Carlsen 2017, 04:36-05:00) and IFU Investment Partners (IIP), Ukraine Investment Facility (UFA), Arab Investment Fund (AIF), the Investment Fund for Central and Eastern Europe (IØ) and Investment Fund for Emerging Markets (IFV). (IFU 2017) Apart from being financed by the government and lives of the return it generates from its investments, IFU also receives private finance from pension funds. (Carlsen 2017, 04:36-05:00).

The institution conducts investments on a commercial basis, either by providing loans or guarantees or by committing equity capital. Furthermore, it also invests in large projects, such as infrastructure *"… we provide a part of the infrastructure, which is actually a way to develop further the country.*" (Carlsen 2017, 31:47-32:22) To the IFU, business investments create a more effective and long-lasting economic development in developing countries, wherefore they do not provide business grants nor aid. *"… we believe that business investment is a good way to create lasting economic development."* (IFU 2017). IFU can invest in all Danish companies or projects, but they must meet the four following conditions; It must be a Danish interest or a Danish investor, that "*… is in need in the project in the host country…"* i.e. the investee might need IFU's advisory resources, on e.g. sustainability activities incorporated into the business model or information about how to operate in the host country's market. Alike Nordic Impact Funds, the investee must present a viable business model and create positive impact in the host country. Last but not least, IFU has created a list for which (host) countries that are eligible to receive their investments. This will be accounted for in more details on page 36.

Part of the criteria the IFU has for potential investees is that the investment also benefits Danish interests, which IFU defines as follows:

- *"A Danish investor*
- *A Danish company supplying goods, technology, know-how, management or services*
- *Indirect financial participation in the project company*
- *A Danish company sourcing products from the project company*
- *A Danish participation on the board or in the management team of the project company*
- *Use of state-of-the-art Danish technology in the project*
- *Direct or indirect job creation in Denmark" (IFU 2017)*

Hence, the purpose of the organization is to enhance Danish trade and industry opportunities in new and emerging markets, whilst contributing to development in the host countries wherefore, the conditions must be met before an investee, company or project, is eligible for receiving IFU investments, as respectively stated on their website. (IFU 2017) Rikke Carlsen, however, stated during the interview that if they see a strong business case, that might not deliver the strongest positive impacts, they go for the investment anyways. This does not mean that they compromise the sustainability goals and conducts to the operations, but rather that they favor the financial return more than a positive impact. *"… if there is a business case, then we will enter into it."* (Carlsen 2017, 31:47-32:22). She further explains, that they often operate in states with fragile or non-existing democracy, and where the possibility of transaction issues can arise. Nevertheless, IFU still believes that doing something is better than doing nothing: *"But we still believe in that it's better to join and help, instead of staying out. And we also face that it's always countries with a high, you know, a very high on the list of corruptions… You know, so it has like, all the difficult issues, where we operate."* (Carlsen 2017, 32:56-33:19)

Companies interested in an investment must follow, apply and/or incorporate the guidelines of the IFU, in and during the investment process. (IFU 2017) This means that the IFU is willing to aid the advice company to meet these criteria the best way possible, if they do not have the resources internally. Rikke Carlsen, Sustainability Advisor for the IFU states *"We are actually quite active in our investments, so… As soon as we enter into an investment […] we always try to […] have a board membership. […] we have an opportunity to develop capacity, develop strength focus doing, while we are in the company. But it's also a way, of course, to secure our investment."* (Carlsen 2017, 11:02-12:06) Again, it is stated that securing the investment, can be done by obtaining a membership of the board, and as the positive impact was not mentioned, it is another indication that the financial return is favored over the impact. This affirms the theory of the lack of blended value into the intention of the investor. Thus, the full potential of blended value will not be provided, as the financial return is favored more than the actual impact, and not equally.

Apart from solely investing capital, the IFU also offers advisory services from one of their regional offices, right from the establishment and during the first years the company is operating, typically pulling out when it can operate on its own, which makes them active investors. *[…] if you look at other investments, they will not be as active. But we are actually… it's a part also, again, I would say the DNA, that we tend to be… We are really involved in the project activities.* (Carlsen 2017, 11:02-12:06) Both the financial services and the advisory services are only provided for project companies that seek to do business in one of the 146 countries eligible for IFU's investments. (IFU 2017) The countries eligible are defined by the IFU as those of the OECD's Development Assistance Committee

(DAC) list[8]. With regards to how the institution divides its capital in between sub-funds, it states that a minimum of 50% of IFU's funds, incl. the funds it manages, must be made into host countries with a GNI per capita income below 80% of the upper limit for Lower Middle-Income Countries (LMIC), as classified by the World Bank. This is measured over a three-year period and the limit in 2017 is USD3,228. (IFU 2017) This is a strong and very important part of the core of IFU – it will not provide investments if the criteria is not fulfilled, wherefore the IFU has an extensive selection and screening process.

> *"Through investments in private companies in developing countries and emerging markets in Africa, Asia, Latin America and parts of Europe, we help to establish companies that provide a bottom line profit and have derived positive development effects for employees, partners and society. Our sustainability policy ensures that the companies we invest in maintain high environmental, social and governance standards."* (IFU 2017)

IFU's DEVELOPMENT AND SUSTAINABILITY POLICIES

As beforementioned, the IFU has two main purposes: to create opportunities for the Danish trade and industry and to contribute to lasting sustainable development in developing countries by conducting investments. Therefore, the organization only invests in private companies located in emerging markets and developing countries, throughout Asia, Latin America, Africa and some parts of Europe. The companies they invest in must provide a bottom line and live up to and maintain a high level of environmental, social and governance standards. (IFU 2017) With regards to IFU's sustainability policies, the organization has a Sustainability Advisory Board that consist of important stakeholders each representing human rights, environment, company, and development policies. The sustainability advisory board is regularly invited to attend meetings to discuss IFU's sustainability work and the

[8] List of low and middle-income countries based on gross national income (GNI) per capita excluding all EU members and countries entering the EU and all G8 members, as published by the World Bank, and all Least Developed Countries (LDCs) as defined by the United Nations. These countries and territories are eligible for receiving Official Development Assistance (ODA). Furthermore, the list has statistical purposes, helping to classify and measure aid and other resource flows from donating countries. DAC is one of the oldest and principal committees of the OECD and is supported by the Development Co-operation Directorate (DCD), which contributes with developing more effective and efficient policies to better lives. (OECD 2017, OECD 2017)

challenges, dilemmas and possibilities that follow. (IFU 2017) Inviting stakeholders with diverse expertise on specific areas to debate at meetings with IFU, indicates that there is an interest to obtain knowledge about how to better the sustainable operations and activities the organization incorporates to their investees.

When it comes to impact reports or the methods IFU use in order to measure the impact their investments have has in the host countries, Rikke states that part of the due diligence process incorporates a CSR-assessment tool, which allows them to get into dialogue with the company, about anti-corruption and ethical and moral standards. Depending on the answers they get, they can determine where and how they have to provide advice on sustainable matters. *"... a part of our due diligence process is actually that [...] we have a, so called, a CSR self-assessment tool, so we ask a lot of questions in order to get in dialogue with the company. Including the corruption issues. [...] depending on the questions [...] or the answer that is actually provided [...] we use it for the sustainability action plan, and then we take it to the advice. [...] we have a very clear anti-corruption policy, and we are very clear on this to our project companies."* (Carlsen 2017, 32:56-34:27) Additionally, the IFU has never terminated any investment projects due to lack of sustainable or impact matters. They push for establishing sustainable actions and operations in the project company, but has never ended or terminated a collaboration due to lack of it. Rather, they are pro-active, and use the advisory resources in this.

IV. Preliminary Conclusion

The IFU is a public financial impact institution because;

1. It is owned by the state, and
2. They conduct impact investments targeting specific developing countries, measured from their GDP.

The IFU is a large institution with several sub-funds that it acts as the fund-manager for. Furthermore, it acts as a bilateral development finance institution, because some of its funds invest in large infrastructural projects in countries. While it has many criteria for a company to receive an investment, sustainability and ethical conduct is also highly valued. However, if there is a good business model, the IFU will not turn down the investment offer, because the financial return is more important than the actual impact. This does not mean that they express that they can invest in companies that are bad, because they also have an exclusion list. In conclusion, the IFU values the financial return over the impact because without the financial return they will not exit. With regards to the impact, it indicates that the belief is that sustainability goals, ethics and conduct can be implemented in and during the investment, thought the advisory services the IFU provides.

V. CONCLUSION

The IFU does not actively and/or physically to screen for potential projects they can invest in, unlike Nordic Impact Funds. However, the methods they use to mobilize private resources are done by investing, primarily through equity and debt, which in case of Nordic Impact Funds, will be in form of acquisition of the company. For the IFU it is more in order to get a place as a board member. The difference here is that the IFU often invests in companies that are from Denmark, or another advanced country, but can provide to Danish interests. Nordic Impact Funds, operates in East Africa, and due to their expertise in international development and the region, they seek to actively take ownership and help the company grow. This is to generate a stronger financial return and to implement strategies that can have a positive impact on East African countries. Thus, both acquire a level of voting-power in the company, in order to mobilize the resources into areas, important for their missions, while advising and implementing sustainable strategies.

While both institutions communicate and have incorporated criteria, that both consist of factors that can create impact and regular investment criteria, outcome of it not easy to find. Just to notify, that Nordic Impact Funds has not invested in any companies yet, which is why I will not be able to conclude for them. However, IFU expresses many criteria, hereunder minimum GPA of the host country, the extend of sustainable and ethical codes the investee must possess. But at the same time, the financial return is favored over the positive impact. This does not mean that they accept unethical and unsustainable behavior and operations, rather that the financial return is more important in the starting faces, because the IFU can provide with advice as to implementation and incorporating sustainable activities. Last but not least, another criteria for the IFU is that the investments they conduct must be to a Danish company, a Danish investor or it must have a Danish interest. This can make IFU's operations bias in their developmental work. Otherwise, it can effect the efficiency in the due diligence.

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