Final report

Evaluation of the Dutch Good Growth Fund

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Submitted by Itad

Acknowledgements

Disclaimer

The views expressed in this report are those of the evaluators. They do not represent those of the Dutch Good Growth Fund or of any of the individuals and organisations referred to in the report.

Contents

Acronyms

Acronym	Meaning
AEF	Access to Energy Fund
BIO	Belgian Investment Company for Developing Countries
CFYE	Challenge Fund for Youth Employment
CIO	Climate Investor One
CSR	Corporate Social Responsibility
D2B	Develop to Build
DA	Development Accelerator
DFCD	Dutch Fund for Climate and Development
DFI	Development Finance Institution
DGGF	Dutch Good Growth Fund
DHI	Demonstration Projects, Feasibility and Investment Preparation Studies
DRC	Democratic Republic of the Congo
DRIVE	Development Related Infrastructure Investment Vehicle
DTIF	Dutch Trade and Investment Fund
EKV	Dutch State Facility for Export Credit Insurance
EU	European Union
FI	Financial Institution
FMCG	Fast-moving consumer goods
FMO	Entrepreneurial Development Bank
FMO-A	FMO-Active
FMO Massif	FMO’s Micro and Small Enterprise Fund
FOM	Fund Emerging Markets
G4AW	Geodata for Agriculture and Water
HIPCs	Heavily Indebted Poor Countries
ICT	Information and Communications Technology
IDA	International Development Assistance
IDF	Infrastructure Development Fund
IF	Investment Fund

Acronym	Meaning
ILO	International Labour Organization
IMVO	A Dutch equivalent of Corporate Social Responsibility (CSR)
IOB	The Directorate for International Research and Policy Evaluation at the Ministry of Foreign Affairs of the Netherlands
KIT	Royal Tropical Institute
LGBTI	Lesbian, gay, bisexual, transgender and intersex people
LDCs	Least Developed Countries
M&E	Monitoring and Evaluation
MDF	Management for Development Foundation
MFA	Ministry of Foreign Affairs of the Netherlands
MFI	Microfinance Institution
NAV	Net Asset Value
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OLIC	Other Low-Income Country
PDF	Project Development Facility
PET bottles	Bottles made of polyethylene terephthalate
PIB	Partners for International Business
PSI	Private Sector Investment Programme
PwC	Price Waterhouse Coopers
RIV	Investment Insurance Facility
SDG	Sustainable Development Goal
SDGP	SDG Partnership Facility
SDG-RBF	SDG Results Based Finance facility for Renewable Energy
SIB	Starters in International Business
SME	Small and Medium-sized Enterprise
VVD-PvdA	Coalition cabinet at the time of the launch of DGGF, consisting of the People’s Party for Freedom and Democracy (VVD) and the Labour Party (PvdA)
WB&G	West Bank and Gaza

Terminology

- Carried interest (or carry): carried interest is a share of profits that the general partners of private equity funds receive as compensation that is additional to their base salary. Carried interest is often only paid if the fund's returns meet a certain threshold.
- Collateral: valuable fixed assets, stocks or receivables, pledged to guarantee loan repayment.
- Excuse rights: right of an investor (e.g. DGGF) not to participate in certain investments.
- Exit: a private equity or venture capital investor getting out of the investment made.
- Externalities: an investment's or other action's positive and negative side-effects on third parties.
- Fijnmazigheid of DGGF: DGGF's assumed ability to conduct more detailed and localised risk assessments than the financial private sector is able to conduct.
- Maturity: loan duration.
- Private equity capital: capital invested in private company, for a stake in that company.
- Revolvability: the extent to which the utilisation of capital generates return flows through proceeds, repayments and exits that collectively maintain the volume of available capital.
- Staging: preparing for a monitoring visit to create an unduly positive impression.
- Venture capital: form of private equity capital that focuses on start-up companies and early stage businesses

Executive summary

Background

In 2014, the Ministry of Foreign Affairs of the Netherlands (MFA) launched the Dutch Good Growth Fund (DGGF or 'the Fund'). DGGF aims to strengthen financial markets for small and medium-sized enterprises (SMEs) in a group of 70 developing countries (the 'DGGF countries'), as well as to support Dutch SMEs' development-relevant exports to and investments in these countries. The Fund is part of MFA's contribution to good financial infrastructure in the Global South, and part of the government's new agenda of linking aid, trade and investment. This agenda has three ambitions: the eradication of extreme poverty in one generation, success for Dutch companies abroad, and sustainable and inclusive growth around the world. This 'inclusivity' of growth has two dimensions – the reduction of poverty and the reduction of inequalities – and contributing to such growth is a 'guiding principle' for DGGF.

MFA committed to investing €770 million into the Fund: €700 million for revolving financial products, and €70 million for technical assistance and seed financing for which revolvability is not required. This capital is fully registered as 'official development assistance' (ODA) and is distributed over three 'tracks':

- Track 1 targets Dutch start-up companies and SMEs that seek to make development-relevant investments in DGGF countries. This track provides direct loans, co-financed loans with banks, guarantees of bank loans, and loans to investment funds that make SME equity investments in Dutch companies that invest in DGGF countries. By the end of 2019, 39 SMEs and start-ups had used Track 1's financial products for investments in 21 countries, and Track 1 had utilised €116 million, including €14.5 million for technical assistance.
- Track 2 is a 'fund-of-funds'. It invests in SME-focused investment funds and financial institutions in DGGF countries, which deploy DGGF capital through equity investments, loans and mezzanine products. At the end of 2019, Track 2 investments had reached 6,819 SMEs in 40 countries, utilising €210 million, including €22.2 million for technical assistance and seed funding.
- Track 3 targets Dutch companies that seek to export development-relevant capital goods to DGGF countries. This track provides export credit risk insurance, complemented by supplier credit in the form of bill of exchange financing. By the end of 2019, Track 3 had concluded 46 transactions that covered exports to 21 countries, made by 27 Dutch companies. For this, Track 3 utilised €65 million, including €0.3 million for technical assistance.

The evaluation's scope and methodology

Shortly after the DGGF launch in 2014, MFA commissioned an external evaluation that would cover the first 5½ years of the 15-year life span of the Fund, from July 2014 until the end of 2019. Its purpose was to contribute to learning and further policy development, and to help MFA give account to the Parliament of the Netherlands ('Parliament') for the first 5½ years of DGGF.

This evaluation was designed to assess the relevance, coherence, efficiency, effectiveness and impact of the DGGF, as well as the sustainability of its trade and development-relevant results, and the revolvability of its capital base. The evaluation's scope does not include an assessment of DGGF against ODA eligibility criteria, a comparison of DGGF's work with non-financial types of private sector development, or DGGF's contributions to the wider financial sector's innovation or learning.

For this evaluation, we – Itad evaluation team – reviewed fund-, track-wide and company-specific metrics and documentation, and used the findings of all DGGF's previous external reviews and evaluations. We conducted interviews with the Fund Managers and the financial institutions they work with, a range of SMEs that accessed or tried to access DGGF products and services, and external specialists in the field of SME development and development finance. We also visited DGGF-supported companies from all three tracks in Ethiopia, India and Kenya, and for comparison purposes, similar companies without DGGF support. A visit to DRC was cancelled because of the COVID-19 pandemic. In its stead, we conducted phone interviews with DRC stakeholders.

Collectively, the case studies and previous external reviews covered 30% of DGGF's cumulative portfolio value of products as of December 2019 (€110 million out of €366 million). This includes different types and sizes of investments and technical assistance, that started in different years.

The evaluation was peer reviewed by an external specialist, and subsequently reviewed by a reference group with participants from the Independent Policy Review Department of the Ministry of Foreign Affairs, this ministry's Sustainable Economic Development Department, the three Fund Managers and an independent expert.

Policy coherence and relevance

DGGF is broadly aligned with the wider policies, agendas and commitments of the Government of the Netherlands, and its two foundational assumptions are correct:

- Insufficient access to finance hinders the SME sector in DGGF countries, as well as Dutch SMEs that would like to invest in or export to these countries.
- DGGF is able to provide financial products and services to financially underserved SMEs without competing with the private financial sector.

In her Letters to Parliament, the Minister of Foreign Trade and Development Cooperation ('the Minister') said that DGGF would support Dutch companies' success on international markets. As a partly tied aid instrument, Dutch company success is indeed part of DGGF's design. The Minister also said that DGGF's investments would have direct development results in DGGF countries. Specifically, DGGF investments would create jobs, add production capacity and enhance knowledge transfer – also in low-income countries and fragile states. The Fund would target women- and youth-owned companies in DGGF countries, and investments would have environmental and social benefits. These result areas are all reflected in the set-up of DGGF, and in the design of its instruments, albeit without attention to the Minister's commitment that results would be broadly proportional to investment size.

The Minister linked these direct results to more fundamental and longer-term results, but DGGF is not fully set up to contribute to these longer-term results. Specifically:

- DGGF is not designed to systematically seek out investment opportunities that foster inclusive growth and poverty reduction, or that empower vulnerable groups. It is possible that investments meet all DGGF's selection criteria while they increase inequalities and (relative) poverty, and ignore vulnerable groups.

- The DGGF's assumption is that it could demonstrate, to the private financial sector, the profitability of SME-focused and development-relevant transactions. This assumption is implausible and has not been confirmed by empirical research.
- The assumption that DGGF could reduce irregular migration flows to Europe by increasing opportunities to youth in a group of 'focus countries' was disproved by almost all empirical research. The opposite is true: in low- and lower middle-income countries, better prospects increase people's propensity to migrate.

Efficiency

The original capital utilisation plans were unrealistic for a new fund that operates in challenging markets, and that is managed by Fund Managers that were all new to elements of DGGF's work. By the end of 2019, DGGF had only utilised half its capital of €700 million, against the original plan of full utilisation by the end of 2017. This means that, in our review period, DGGF was a costly fund, per unit of investment. However, the management fees are reasonable and the costs are coming down as the portfolio expands. Once DGGF approaches full capital utilisation, costs will be at a level that is comparable with other DFIs and investment funds.

DGGF's synergies were meant to increase the Fund's efficiency. There is synergy *within* each of the three tracks. In Track 1 and 2, technical assistance supported investments. Track 2 deployed seed capital to get investment funds ready for DFIs (which is a helpful innovation in the DFI sector). Track 3 usefully combined export risk insurance and bills of exchange financing. However, there is little synergy *across* the tracks – also because Track 2 has little in common with Track 1 and 3. In the wider financial sector, DGGF sometimes works in synergy with other investors – mostly other DFIs. However, its leverage effect is smaller than originally envisioned, and smaller than the Minister asserted. It is also less causal than the word implies: most 'leverage' is really co-dependency of investors, and a portion of its investments is leveraging as much as it is being leveraged. Most of the leveraged capital is not (yet) from the private financial sector, but from public and private non-profit sources.

Standardised, transparent, predictable and timely end-to-end financing application processes, which are based on systematically applied and unambiguous criteria that are known to applicants at the start and do not shift midway through the process, are also an important component of efficiency for most financial products (with the exception of equity investments). Track 1 processes do not fulfil these criteria. The Track 3 processes are more systematic and streamlined, but the Fund Manager does not keep applicants sufficiently informed about progress.

Effectiveness

In the longer term, DGGF aims to create indirect development results by inspiring companies and the unsubsidised private financial sector to invest in SMEs in DGGF countries. DGGF does not try to capture these effects, and we did not see them within our sample. Therefore, our conclusions relate to DGGF's direct effects only.

The Minister committed to a number of direct results and there are examples, within DGGF's portfolio, of successes in each of these result areas. Collectively, however, DGGF's direct trade and development results are lower than originally expected. This is because of the low utilisation of capital, DGGF's systematic optimism bias, and operational weaknesses.

By the end of 2019, DGGF had made a modest contribution to Dutch companies' exports to and investments in DGGF countries. These companies, and the companies served by Track 2, directly contributed to the net creation of almost 10,000 jobs in DGGF countries, after the Fund's first five and a half years, against original estimates of over 130,000 jobs in the course of the Fund’s first 15 years. These were created in 7,000 companies in DGGF countries. MFA’s targets for investments in women-owned and youth-owned companies, and in companies in fragile states (at least 15% of disbursed capital for each group) were exceeded because of deliberate and ongoing efforts within Track 2 (for all groups) and as the consequence of the additionality of Track 3 (which meant that Track 3 accepted high-risk exports to fragile states).

DGGF often facilitated increases in production capacity. DGGF also often transferred relevant knowledge, directly and indirectly. However, the Fund is over-reliant on training, in its approach and its reporting, and unambitious in its monitoring of the effectiveness of its technical assistance.

DGGF did not follow up on the Minister’s commitment to a rough proportionality between development effects and investment size, but this is defendable if investments with limited development relevance benefit the Fund’s revolvability. (It is too early to confirm that this is the case.) Only a quarter of DGGF’s portfolio is focused on low-income countries (against a Track 2 target of more than half its investment volume, which was DGGF’s only target in this field). This is also defendable as other priorities – particularly the mid-period priority of ‘focus countries’ (which attracted 43% of DGGF’s total cumulative investments by the end of 2019) – effectively superseded this target.

DGGF actively engages with CSR issues, but there is a disconnect between the documentation and operational realities. We saw health and safety issues that DGGF appeared to be unaware of. Moreover, only the Track 1 Fund Manager was tracking progress on companies paying the living wage. The environmental part of CSR led to mixed results: there are investments with significant environmental benefits, but there are also investments that cause significant pollution, as well as some with obvious environmental risks. DGGF’s work on governance issues was successful and widely appreciated, by both DGGF-supported IF/FIs and the SMEs they invested in.

Impact

In the Netherlands, DGGF contributed to the performance of most of the companies it worked with.

In DGGF countries, DGGF made investments that contributed to sustainable and inclusive economic growth and poverty reduction, or that have the potential to do so in the near future. The Fund’s investments created jobs in sectors that benefit segments in society that often live below the poverty line; strengthened people’s livelihoods; and reduced income variability and shocks. In our sample, we also saw investments that have broad-based health benefits, and investments that reduce the urban-rural digital divide – which opens the door to a host of other development benefits. A few investments in agro-tech companies may help reverse declining groundwater levels and reduce the use of polluting chemicals in agriculture – both essential for long-term food security. DGGF appreciates such benefits, but does not systematically pursue and monitor them.

DGGF does not systematically assess its investments' effects on inequality, and financed a number of investments that employ and cater for the wealthiest segments of society. This was also the case in the fields of health and education, in countries where most people do not have access to the basics. Such investments, as well as the DGGF’s strong big city bias, reinforce inequalities. Therefore, DGGF’s *overall* effect on inequality, and with that its contribution to inclusive development, is unknown.

The Fund does not monitor other negative externalities such as local production displacement or job displacement either, but it does assess and monitor the use of child and forced labour, and the use of contested lands. These are formal and Fund-wide red lines, and in our sample we saw no evidence of these lines being crossed.

Sustainability

DGGF's support to Dutch exports enables Dutch companies to take risks they would not independently take, and increases their products' competitiveness compared to lower-cost alternatives from other countries, because of DGGF's bills of exchange financing. The DGGF-supported part of these companies' export stream would stop if DGGF's financing discontinued.

Our review period ended before the COVID-19 pandemic started, and the world has obviously changed since our cut-off point of December 2019. At that time, the direct development effects of most DGGF-facilitated investments looked sustainable. This highlights the rigour with which DGGF and its IF/FIs scrutinise the business plans and commercial prospects of the companies they consider working with. Nevertheless, a predictable consequence of the Fund's deliberate risk-taking and tough operating environment is that a significant proportion of DGGF's investments underperforms or fails. This, and DGGF's slower-than-expected portfolio growth, means that DGGF is unlikely to reach its stated aim of 100% (nominal) revolvability. The more recent instruments of Track 1 are likely to put further pressure on the Fund's revolvability, as these explicitly seek out risk and offer highly concessional loans.

A partially revolving fund allows for a long-term investment volume that is far greater than what the Dutch government's pre-DGGF grant-based instruments could potentially achieve. However, partial revolvability will probably not signal, to the private financial sector, that SMEs in DGGF countries are a viable asset class. Indeed, we saw little evidence of DGGF catalysing commercial private finance for SMEs in DGGF countries. We saw some evidence of DGGF financing attracting subsequent financing that was less concessional, and this is a useful step in a gradual, long-term process toward commercial financing.

We also saw evidence of DGGF's influencing efforts. By sharing experience and knowledge products, and by supporting IF/FI managers to engage with governments and regulators, DGGF seeks to reduce the financial missing middle in the countries in which it operates. Assessing the results of this influencing work requires real-time evidence gathering systems and processes that DGGF does not yet have but could build up with relative ease.

Recommendations

1. DGGF should operationalise its line of sight to inclusive development and poverty reduction. DGGF should do more to identify, celebrate, replicate and learn from successes in this field, and avoid investing in endeavours that widen inequality.
2. MFA should consider if the DGGF's three tracks, and the many instruments within these tracks, have enough in common to serve as sensible component parts of a single fund.
3. Using the experience built up over the past five years, DGGF should revisit its targets, theories of change and accountability thresholds. DGGF should define aims that are clear and realistic with defined time horizons, and it should measure progress against them in a manner that is consistent across its tracks.
4. MFA should reconsider its formal revolvability requirement for elements that cannot potentially achieve it. MFA should acknowledge trade offs between, and be explicit about acceptable deviations from, revolvability and other requirements.
5. For as long as there is an underutilisation of available capital, Tracks 1 and 3 should more proactively generate demand. Both tracks should focus their demand-creating efforts on DGGF's specific target groups. They should optimise their application processes.

6. Fund Managers should do more to build their understanding of on-the-ground realities. This would help to address CSR and other challenges, and to replicate success.

1. Introduction

Collectively, small and medium-sized enterprises (SMEs, see Box 1 for a definition) are a major economic force and the world's largest employer.[1] However, in many countries the SME sector does not reach its full potential. One key obstacle is the sector's limited access to financial products and services.

In 2014, the Ministry of Foreign Affairs of the Netherlands (MFA) launched the Dutch Good Growth Fund (DGGF or 'the Fund') in order to strengthen financial markets in a group of up to 66 developing countries (the 'DGGF countries', later expanded to 70 countries), as well as to support Dutch SMEs' development-relevant exports to and investments in these countries. MFA committed to investing €700 million into this new fund (down from an earlier commitment of €750 million). DGGF was to use this investment as revolving capital for financial products and services to SMEs that wish to realise or grow development-relevant production and trade. An additional €70 million was earmarked for technical assistance (down from an earlier commitment of €75 million).

Box 1: DGGF definition of small and medium-sized enterprises

Formally, DGGF follows the EU definition of SMEs. The EU defines SMEs as companies that meet the first and at least either the second or third of three criteria:

- Between 10 and 250 employees.
- An annual turnover of between €2 million and €50 million.
- A balance sheet total of between €2 million and €43 million.

In practice, DGGF only considers the upper thresholds, and also supports companies that the EU considers to be 'micro companies'. Under certain conditions and with limits that differ per track, larger companies may also be eligible for DGGF products and services.

Shortly after the DGGF launch, MFA commissioned Itad[2] to conduct an external baseline report (published in May 2018), and this 'endline evaluation' which only covers the first 5½ years of the 15-year initial life span of the Fund. This evaluation has a formative purpose; to contribute to learning and further policy development. It also has a summative purpose; to help MFA give account to the Parliament of the Netherlands ('Parliament') for the first 5½ years of DGGF.

The evaluation's scope includes the way DGGF operations relate to the Fund's stated targets and aims, the wider policies of the Government of the Netherlands, and the efforts and results of the investment and technical assistance portfolio of three DGGF Fund Managers, which are:

- Netherlands Enterprise Agency (*Rijksdienst voor Ondernemend Nederland*, RVO) which has an open-ended contract to develop and manage **Track 1**. Track 1 supports Dutch companies' investments in DGGF countries.
- Triple Jump and PwC, which have an initial ten-year contract, with the option of a five-year extension, to develop and manage **Track 2**. Track 2 is a 'fund-of-funds' that invests in investment funds and financial institutions (IF/FIs) in DGGF countries.

[1] Collectively, SMEs provide more than 50% of employment worldwide, according to https://www.worldbank.org/en/topic/smefinance, accessed on 17 May 2020.

[2] Originally in consortium with SEO Amsterdam Economics.

- Atradius Dutch State Business, which has an open-ended contract to develop and manage **Track 3**. Track 3 insures and finances Dutch companies' exports to DGGF countries.

This evaluation's scope does not include (i) an assessment of DGGF against the eligibility criteria of official development assistance (ODA), (ii) a comparison of DGGF's work with non-financial types of private sector development, or (iii) DGGF's contributions to the wider financial sector's innovation or learning. Our dataset ends on 31 December 2019, and we did not assess COVID-19's impact on DGGF development results and revolvability (i.e. the extent to which the utilisation of capital generates return flows through proceeds, repayments and exits that collectively maintain the volume of available capital).

This report addresses a set of evaluation questions that were defined, in 2014, by MFA (see Annex 1) and it covers the evaluation criteria of the Organisation for Economic Co-operation and Development (OECD) and the Directorate for International Research and Policy Evaluation at the Ministry of Foreign Affairs of the Netherlands (IOB): relevance, policy coherence,[3] efficiency, effectiveness, impact, and sustainability, which are section headings. These are preceded by sections on methodology and DGGF's background and are followed by the evaluation's conclusions and recommendations.

The observations made in this report apply to the DGGF as a whole, unless specified otherwise.

[3] This is a mix between IOB's 'policy consistency' and the OECD's new (December 2019) evaluation criterion of 'coherence'. See IOB (October 2009) *Evaluation policy and guidelines for evaluations*, section 4.3.6, link; and OECD (December 2019) *Evaluation criteria*, section on coherence, link.

2. Methodology

2.1 Methods and process

The methodology for the 2018 baseline report and this 2020 endline evaluation was designed to assess the relevance, coherence, efficiency, effectiveness and impact of a fund that financed operations in the Netherlands and a large number of low and middle-income countries (46 countries by the end of 2019, out of an eligible group of 70 'DGGF countries'), as well as the sustainability of its trade and development-related results, and the revolvability of its capital base, from its launch in July 2014 until the end of 2019.

For this endline evaluation, we looked at fund-, track-wide and company-specific metrics and documentation. We interviewed the Fund Managers and the financial institutions they work with, a range of SMEs that accessed or tried to access DGGF products and services, and external specialists in the field of SME development and development finance. We visited DGGF-supported companies from all three tracks in Ethiopia, India and Kenya; as well as similar companies without DGGF support, for comparison purposes. A visit to DRC was cancelled because of the COVID-19 pandemic, and we conducted phone interviews with DRC stakeholders instead.

We used the results of a series of external reviews that looked at parts of DGGF during the review period:

- The early results of an ongoing review of Track 1, conducted by the Royal Tropical Institute (KIT) and Erasmus University Rotterdam.[4]
- Seven in-depth reviews of IF/FIs that Track 2 had invested in, conducted by Ecorys and the Management for Development Foundation (MDF).[5]
- A review that assessed elements of Track 3's performance, and that compared Track 3 with export credit agencies in other OECD countries, conducted by Witteveen and Bos.[6]

Collectively, our case studies and external thematic reviews covered 30% of DGGF's cumulative portfolio value of products as of December 2019 (€110 million out of €366 million, see Figure 1).[7] They include investments and technical assistance of different types and sizes, that started in different years.

We sorted the data, largely on the basis of the evaluation questions (see Annex 1); came to an analysis on the basis of the data we gathered and a concise review of external literature; and scored each finding on the basis of the robustness of the evidence (A-D), and dropped findings that were insufficiently robustly evidenced. We presented our findings to MFA and each of the

[4] Royal Tropical Institute and Erasmus University Rotterdam (March 2020) *Thematic Evaluation of DGGF1: Effects on Responsible Business Conduct and on Serving Local Markets with Products/Services,* Inception Report.

[5] MDF, Ape and TIMPOC (December 2019) *Endline Evaluation OASIS Africa VC Fund (OAF) DGGF;* MDF, Ape and TIMPOC (January 2020*) Endline Evaluation Cambodia Laos Myanmar Development Fund (CLMDF) DGGF*; ECORYS and Carnegie Consult (January 2020) *IF evaluations Dutch Good Growth Fund track 2: AccessBank Liberia*, Endline report; ECORYS and Carnegie Consult (April 2020) *IF evaluations Dutch Good Growth Fund track 2: Gazelle Finance*, Draft final report; ECORYS (December 2019*) IF Evaluation Dutch Good Growth Fund track 2: Novastar*, Draft Final Evaluation Report; ECORYS (December 2019) *IF Evaluation Dutch Good Growth Fund track 2: GroFin SGB Fund*, Draft Final Evaluation Report; and ECORYS (October 2018) *IF Evaluation Dutch Good Growth Fund track 2: CIDRE*, Final Evaluation Report.

[6] Witteveen and Bos (2019) *Thematic evaluation DGGF track 3 – benchmar*k.

[7] The €110 million includes the investment portfolios of the IF/FIs covered in the seven Track 2 reviews, and all DGGF products we reviewed directly (all tracks), but not the coverage of the reviews of Track 1 and 3, because the Track 1 review is at the early stage of development, and the Track 3 review did not cover Track 3's actual portfolio of policies. The investment volume covered in our sample is lower than the sum total volume of DGGF products in the countries where we reviewed DGGF's work (€110 million versus €167 million) because of sampling *within* each of these countries.

three Fund Managers, and considered further evidence they provided us with, before drafting this report. This evaluation's evidence base, analysis and recommendations were peer reviewed by Stephen Spratt, an independent development finance specialist. The evaluation's main findings and recommendations were also peer-reviewed by a reference group with participants from IOB, MFA's Sustainable Economic Development Department, the three Fund Managers and an independent expert, Hugo Couderé.

2.2 Challenges

Because of the many uncertainties, few DGGF targets had been clearly defined from the start, and some targets were lowered when practice proved the initial targets to be unrealistic. Moreover, stated priorities, interpretations and measurements of key concepts and metrics changed over time (partly as an element of a learning-based process of fine-tuning), and differed across and within tracks. This, and the fact that some of DGGF's work is not yet evaluable because progress has been slower than originally envisioned and few investments have been exited from, meant that it was difficult to determine 'satisfactory performance'. A systematic optimism bias added to the challenge: in many cases, targets were unmet partly because they were not realistic.

We assessed the portfolio against stated initial and subsequent targets, set by MFA or Fund Managers, where these were available. In the absence of formal targets, we assessed against stated 'ambitions' and *ex ante* estimates of development results. We also considered outputs, outcomes and impact envisioned in the DGGF Theories of Change; various global indicators; and, for Track 2, reported performance indicators of other Development Finance Institutions (DFIs). Where possible, we considered the ways in which DGGF evolved within the review period.

2.3 Data limitations

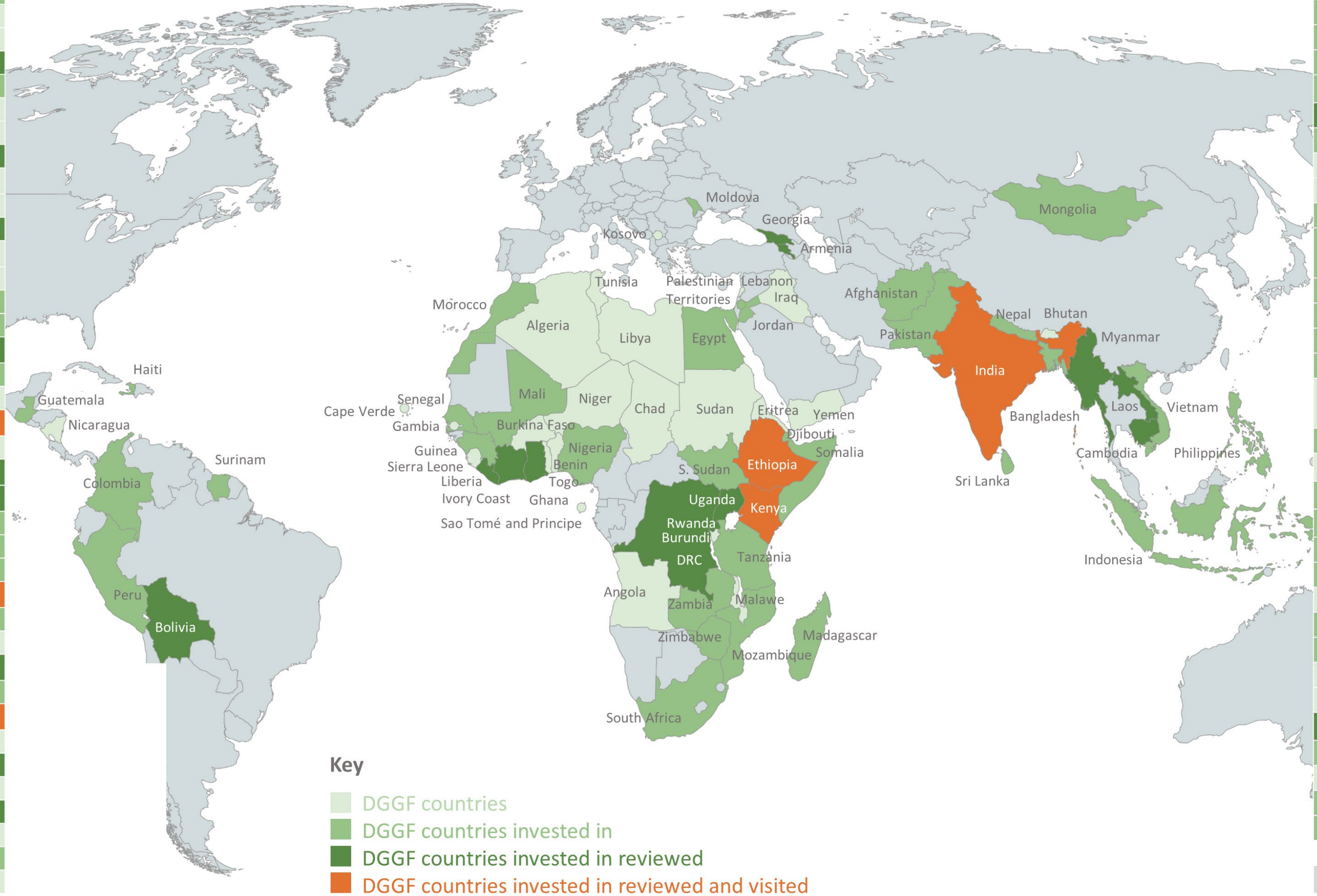
Data about DGGF's direct effects are generally reliable: we compared stated and actual employment in 43 companies and came to comparable figures in 37 of them. However, the data we used had serious limitations. The most significant were as follows:

- **Data gaps.** There was limited data on the way DGGF influenced the wider SME sector or the wider financial sector; and a near absence of data on the way DGGF contributed to poverty reduction and inclusive development (i.e. anything above the lower half of the mid-term outcomes of the theories of change – see Annex 2).
- **Data validity.** Not all indicators carry the meaning they are meant to have. 'The number of certifications' (a Track 1 metric), for example, is not by itself a valid proxy indicator of 'production capacity'.
- **Data aggregation.** The three DGGF tracks used different criteria to measure the same outcomes. 'Job creation', for example, was measured *pro rata* by the Fund Manager of Track 2 (i.e. the Fund Manager 'claims' 20% of the jobs created by an investment if it contributed 20% to that investment), but not by the Fund Manager of Track 1 (i.e. the Fund Manager claimed all jobs created in the period after an investment, even if Track 1 was a co-investor).
- ***Ex ante* estimates instead of *ex post* measurements.** Most Track 3 data are limited to *ex ante* estimations of development results.

Throughout this report, we are clear about the shortcomings of the data we present, and the definitions and assumptions that underpin them.

Figure 1: This evaluation's sample

Country	Amount (€m)
Afghanistan	5.84
Algeria	-
Angola	-
Armenia	4.34
Bangladesh	2.11
Benin	-
Bhutan	-
Bolivia	4.41
Burkina Faso	-
Burundi	-
Cambodia	9.69
Cape Verde	-
Chad	-
Colombia	9.00
Djibouti	0.50
DRC	13.18
Egypt	9.57
Eritrea	-
Ethiopia	21.20
Gambia	-
Georgia	11.77
Ghana	16.32
Guatemala	8.68
Guinea	1.30
Haiti	1.41
India	20.13
Indonesia	17.24
Iraq	-
Ivory Coast	3.19
Jordan	8.91
Kenya	29.51
Kosovo	-
Laos	0.90
Lebanon	-
Liberia	3.52
Libya	-
Madagascar	2.38
Malawi	-



Country	Amount (€m)
Mali	3.71
Mongolia	4.73
Moldova	9.98
Morocco	1.60
Mozambique	0.75
Myanmar	8.51
Nepal	3.30
Nicaragua	-
Niger	-
Nigeria	22.19
Palestinian Territories	4.45
Pakistan	0.50
Peru	7.30
Philippines	0.29
Rwanda	3.20
Sao Tomé & Principe	-
Senegal	3.93
Sierra Leone	-
South Africa	9.04
South Sudan	0.89
Sri Lanka	9.57
Somalia	0.68
Sudan	
Surinam	0.60
Tanzania	10.87
Togo	-
Tunisia	-
Uganda	16.80
Vietnam	19.60
Yemen	-
Zambia	4.60
Zimbabwe	1.61
Total	**353.79**

3. Background

3.1 Situating DGGF in MFA's wider efforts

MFA private sector development support for low and middle-income countries focuses on five work streams that aim to help fulfil five conditions for sustainable entrepreneurship: (1) good market access; (2) a good legal framework; (3) reliable institutions and actors; (4) good physical infrastructure; and (5) good financial infrastructure. Dutch contributions made to these five areas are meant to reinforce each other.[8]

In 2014, DGGF was launched to contribute to the fifth work stream *and* to operationalise the government's new agenda of linking aid, trade and investment. The Terms of Reference for this evaluation defines this agenda, and situates DGGF in it, as follows:

> *The new agenda of aid, trade and investment has three ambitions: the eradication of extreme poverty in one generation, sustainable and inclusive growth around the world and success for Dutch companies abroad. The new agenda reflects an important pillar of the Government Programme: working on sustainable growth. The DGGF adds inclusiveness to it.*[9]

"Sustainable and inclusive growth" form "a guiding principle" for DGGF, because "growth and a fair distribution do not always come together".[10] The letters to parliament present a concept of inclusiveness that is generally aligned with the *Inclusive Development Index* and addressed both poverty and inequality.[11]

DGGF is one of several financial instruments funded by the Government of the Netherlands. In a 2019 Letter to Parliament, MFA visualised how these various instruments are positioned vis-à-vis the government's thematic goals and typical financing stages of company development (see Figure 2).[12] Figure 2 depicts DGGF as a uniquely positioned fund that aims to create employment and that serves SMEs that are between the end of their 'development phase' and the start of their 'trade and investment phase'. This depiction is incorrect: DGGF covers the full spectrum from the incubation of start-ups to the facilitation of mature trade and investments.

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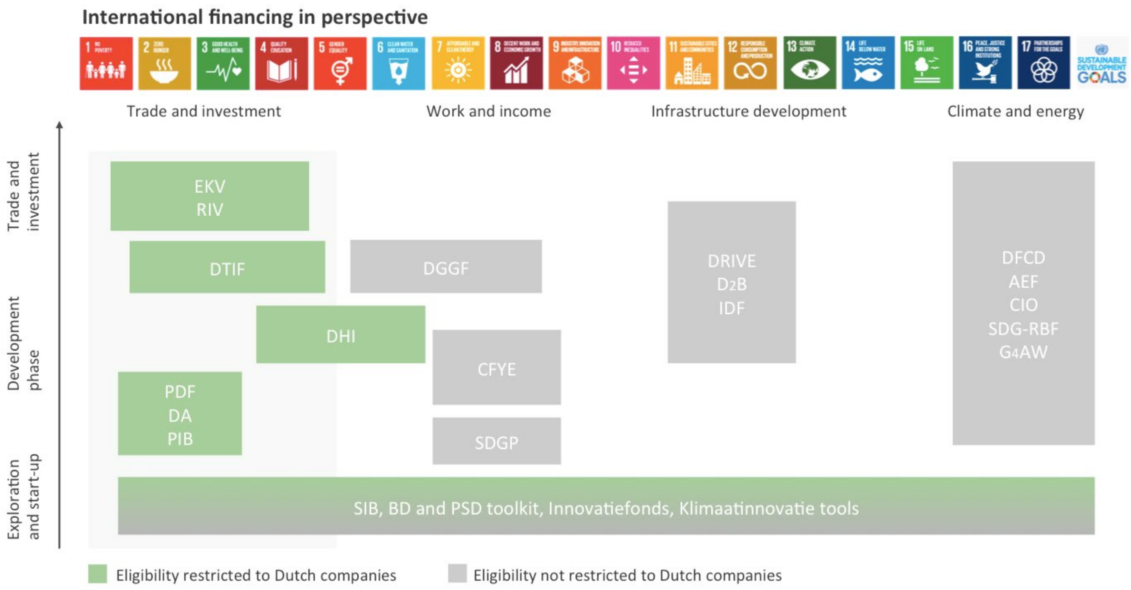
[8] Letter to Parliament (30 September 2013) *Ondernemen voor ontwikkeling: investeren in duurzame en inclusieve groei,* pages 8-9.
[9] MFA (4 December 2014) *Terms of Reference for the policy evaluation; the Dutch Good Growth Fund 2014-2019*, page 6.
[10] MFA (4 December 2014) *Terms of Reference for the policy evaluation; the Dutch Good Growth Fund 2014-2019*, page 6.
[11] The 'inclusiveness' part of this index are the (1) median household income, (2) poverty rates, (3) the income Gini coefficient and (4) the wealth Gini coefficient. See Figure 1 on page 2 of World Economic Forum (2018) *The inclusive development index 2018; summary and data highlights*, link. While most statements on DGGF's contribution to inclusive development are aligned with the mainstream interpretation of the concept, there are a few deviations as well, such as this one: "Inclusive growth emphasises the social dimension: men and women should be able to participate in the economic process through employment, investments in education opportunities and small producers' better access to land, capital, knowledge and markets."
[12] This figure only covers the instruments that Dutch companies have access to.

Figure 2: Overview financial instruments for Foreign Trade and Development Cooperation as presented to Parliament; in reality, DGGF covers the full spectrum from the incubation of start-ups to the facilitation of mature trade and investments



Source: Letter to Parliament (14 February 2019) Investeren in perspectief - goed voor de wereld, goed voor Nederland, page 5.

3.2 The launch of DGGF, and the parliamentary communication about it

In October 2012, the VVD-PvdA coalition agreement presented the plan to establish a revolving fund that would facilitate investments in developing countries. It was to be capitalised between 2014 and 2016, to the amount of €750 million.[13]

With a short (six months) delay against the original plan, the Fund was launched in July 2014, with a total available capital of €700 million (reduced from €750 million following parliamentary pressure), plus a maximum of €70 million on technical assistance. The revolving capital was scheduled to be fully disbursed between the Fund's launch and the end of 2017.[14]

The coalition introduced DGGF at a time when the Government of the Netherlands reduced its overall ODA budget to below its long-standing (since 1970) target of 0.7% of the country's Gross National Income. This, and the fact that DGGF was partly 'tied aid' (as only Dutch companies are eligible to Track 1 and 3), made DGGF a politically sensitive instrument and the Fund therefore received considerable parliamentary attention.

In her Letters to Parliament, the Minister of Foreign Trade and Development Cooperation ('the Minister') answered parliamentary questions and outlined the DGGF aims. These aims related to country selection (low-income countries, fragile states, 'migration countries'), fields of focus (employment, production capacity and knowledge), conditions (environmental and social), target groups ('vulnerable groups'), and target entrepreneurs (women, youth, and entrepreneurs in fragile states). In addition to the direct results of DGGF's capital utilisation, the letters emphasised ('expressly') that the DGGF work will demonstrate, to the private financial sector,[15] the profitability of development-relevant transactions so that, in time,

[13] Government of the Netherlands (29 October 2012) *Bruggen slaan; Regeerakkoord VVD – PvdA*, section 88, link.
[14] The foundational documents of **Track 2** and **3** confirmed the plan to disburse their initial €175 million allocations by the end of 2017, but the Fund Manager of **Track 1** stated, in its tender document, that it would take until the end of 2018 to disburse its initial allocation.
[15] In this report, the 'private financial sector' refers to the commercial financial sector, and excludes private sector angel investors and impact investors.

commercial operators will finance such transactions themselves. Both the DGGF's direct and indirect effects would contribute to the end goal of poverty reduction and sustainable, inclusive development.

3.3 DGGF's 'Theory of Change'

There is no DGGF-wide theory of change, but MFA accepted three track-specific theories of change (see Annex 2), developed by Itad in 2016, that aggregate into the following causal logic:[16]

- Directly or via IF/FIs, DGGF uses capital (inputs) to provide technical assistance and financial products and services to SMEs in the Netherlands and DGGF countries (outputs).
- DGGF instruments help companies create jobs, increase their production capacity, and gain and transfer knowledge (short- and medium-term outcomes).
- Over time, DGGF instruments demonstrate, to the private financial sector in the Netherlands and DGGF countries, that it makes good business sense to make such investments, and over time the private financial sector increasingly provides DGGF-type products and services on a commercial basis (medium- and longer-term outcomes).
- Powered by the unsubsidised private financial sector, SMEs in DGGF countries continue to grow their capacity, create jobs, and absorb knowledge (longer term outcome). Similarly powered by the unsubsidised private financial sector, Dutch SMEs contribute to this, through their development-relevant exports to and investments in DGGF countries (also longer-term outcome).
- This contributes to sustainable and inclusive growth and poverty reduction, in DGGF countries, as well as to an increasingly strong performance of Dutch SMEs (impact).
- Meanwhile, DGGF financial products and services revolve on a nominal basis. This means that, after the initial capital investment, the recurrent investment by the Government of the Netherlands is limited to the costs of technical assistance and a few other types of expenditure that are excluded from the revolvability requirement.

The theories of change estimate that the medium-term outcomes will start occurring two years after the DGGF launch, or mid-2016. The longer-term outcomes are estimated to start occurring five years after the launch, or mid-2019.

3.4 Background of Track 1

Purpose and set-up. Track 1 aims to support Dutch SMEs that wish to make commercially sound and development-relevant investments in DGGF countries. Track 1 provides direct loans to SMEs, co-financed loans with banks, guarantees of bank loans, and loans to investment funds that make SME equity investments in Dutch companies that seek to invest in DGGF countries. Track 1 also offers technical assistance to companies.

Changes over time. In the first years, revisions in instruments mostly aimed to increase the volume of Track 1 deals, and comprised the relaxing of eligibility conditions, widening the target group, and allowing for more direct lending. In 2018, when the available capital increased from €175 million to €230 million, further changes included longer maximum loan maturity and amounts; more lenient repayment conditions for start-ups; and products to meet MFA's new development priorities for focus regions and countries. The technical assistance offer, which initially was meant to de-risk DGGF investments or strengthen impact, gradually broadened to include product development and testing and, on at least one occasion, working

[16] In addition, each of the Fund Managers developed its own 'Results Chain', which work towards the same ultimate aims, following comparable but not identical routes.

capital. Technical assistance is no longer restricted to companies that use Track 1 financing and the technical assistance portfolio comprises mostly of start-up support. Some of the technical assistance takes the shape of repayable grants, but this repayment requirement (in successful cases only) was not initially formalised in the agreement (this changed in 2020).

These changes shifted the balance towards more risk-taking and development impact, and towards products that had more appeal to targeted companies, at the likely expense of revolvability. It also expanded the scope of Track 1, which could now reach the full spectrum of companies from start-ups to growing SMEs and scale-ups.

Figure 3: Track 1 timeline

The DGGF instruments changed over time, Track 1 in particular

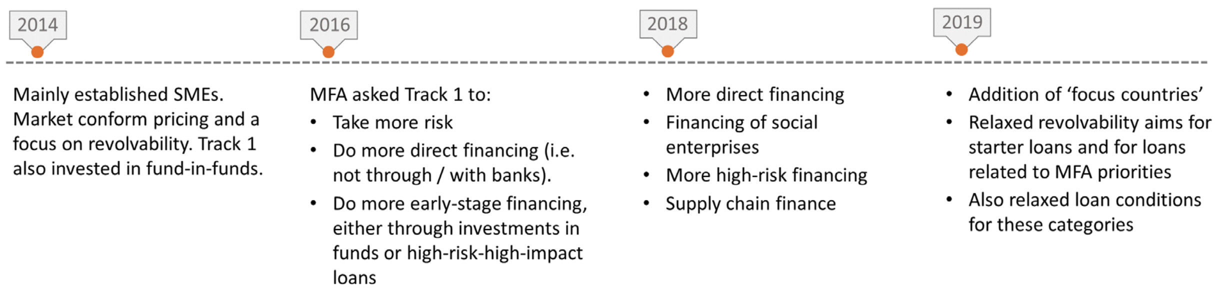


Table 1: Track 1's key data as of 31 December 2019 (unless otherwise indicated) and timeline

A. Financial data	In million euros and percentages
Capital allocated for financial products	**230.00**
Capital committed	**158.86**
> Of which DGGF loans	**100.48**
> > Of which direct loans	**82.10**
> > Of which co-financed loans	**18.38**
> Value of DGGF guarantees	**27.39**
> Value of commitments by 4 Track 1-supported investment funds	**31.00**
Capital disbursed	**101.40**
Proportion committed capital against allocation	69%
Proportion disbursed capital against allocation	44%
Capital allocated for technical assistance	**17.50**
Cumulative technical assistance expenditure	**14.67**
> Of which SME	**5.81**
> Of which starter	**8.86**
Proportion expenditure against allocation	84%

B. Number and nature of investments	Number of projects
Number of investment projects	**47**
> Of which investments made by Track 1-supported investment funds	**8**
> Of which direct investment projects	**39**
> > Of which guarantees (against ambition by end 2018)	**14 (98)**
> > Of which loans (against ambition by end 2018)	**33 (91)**
> > (Of which loans and guarantees combined)	**(8)**
> > > Of which direct/stand-alone loans	**24**
> > > Of which co-financed loans	**9**

C. Features of SMEs in DGGF countries	Number of entrepreneurs
Profiles selected SMEs, in order of cumulative investment size	
Entrepreneurs in DGGF countries (excluding ones supported by Track 1-supported investment funds)	**39**
Female entrepreneurs (against ambition by end 2018)	**4 (11)**
Young entrepreneurs (against ambition by end 2018)	**3 (5)**
Entrepreneurs in fragile states (no ambition)	**1 (n/a)**

SME selection and rejection. All proposals are appraised for their commercial and financial viability, as well as their development relevance – chiefly employment creation and production capacity in DGGF countries, and knowledge transfer to employees and suppliers of companies in these countries. All proposals are also appraised for their compliance to principles related to corporate social responsibility (CSR – see Box 3 for information on DGGF's broadly interchangeable use of terminology, in this context). Depending on its nature, non-compliance may or may not be reason to reject a proposal. Where it is not, non-compliance requires an action plan to move towards compliance. Main reasons for rejection were investment limits (too high), stage of development (too early) and lack of activity in the Netherlands (a formal requirement that is not always applied).

Key data. An overview of the Track 1 portfolio as of 31 December 2019 is provided in Table 1. By the end of 2019, Track 1 had invested in 39 SMEs, including four starter loans, against the Fund Manager's 2014 expectation of concluding 98 guarantees and 91 loans by 2018.[17] At the end of 2019, four of the loans had been repaid in full. Track 1 also participated in two investment funds, which made seven investments in total. By the end of 2019, total commitments, including commitments made by the two investments funds, amounted to €134 million, of which €101 million was disbursed, compared to initial expectations of a 100% commitment and disbursement rate by 2018. The original intention was that nearly all projects would involve co-financing or guarantees of commercial bank loans. In reality, 24 of the 39 investment projects were direct loans. Of the entrepreneurs supported by Track 1, the Fund Manager reported four as female, three as under the age of 35, and one as active in a fragile state. Track 1 supported investments in 21 of the 70 eligible countries. Of these, Ethiopia, India, Kenya and Vietnam received the largest investment proportions. Investments took place in industry (38%), agriculture (27%), fisheries (9%), medical (8%), trade (7%) and other sectors (11%). The Fund Manager does not maintain a categorisation of rejected applications.

After the first few years, there has not been a clear upward trend in the use of Track 1's financial products (with 0, 5, 8, 9, 7 and 10 agreements per year from 2014 until the end of 2019), but the changes in eligibility criteria did accelerate the use of Track 1's Technical Assistance facilities (0, 3, 14, 31, 45 and 38 agreements per year, in that same period, including eight agreements made to support Track 3 agreements, which are also managed by the Track 1 Fund Manager).

3.5 Background of Track 2

Purpose and set-up. Track 2 is a fund-of-funds. It invests in IF/FIs that finance SMEs in DGGF countries. Track 2 is structured through five 'investment blocks'. Each of these blocks finance IF/FIs that target different types of SMEs, applies different financing mechanisms, or has different degrees of risk appetite (see Table 2). This set-up gives the Fund Manager flexibility to make investment choices that do not individually meet all requirements, in order to develop and maintain a portfolio of investments that collectively fulfill a wide range of conditions, absorb three budget additions, and manage shifts in MFA's priorities.

[17] In some cases, SMEs received multiple rounds of Track 1 support (e.g. follow-on financing), which is counted as one project in this report.

Table 2: Track 2's five investments blocks

Block	# agreements	€ million invested	% capital invested
1. Mezzanine financing	3	29.5	16%
2. Private equity funds	7	29.3	16%
3. Banks and microfinance institutions	16	84.2	45%
4. Pioneer private equity funds	11	33.3	18%
5. High-risk-high-impact private equity funds	5	11.3	6%
Total	**42**	**187.6**	**100%**

Since the investment blocks differ in their approach and expected results, shifting allocations between blocks allows Track 2 to steer its operations to achieve its overall portfolio level targets. In addition to the investment blocks, Track 2 has a non-revolvable *Seed Capital and Business Development* programme that aims to provide seed capital to early-stage finance activities; and technical assistance to funds and business development support to SMEs (both called technical assistance in this report). This allocation is also used to commission studies and to support efforts that aim to improve entrepreneurial ecosystems in DGGF countries.

Changes over time. Track 2 updated its block strategy and targets during the review period, but did not fundamentally alter them. Changes were made in light of new insights and new MFA priorities in relation to focus countries and target groups, and as part of ongoing calibration to achieve results against targets. The 2016 Business Plan added ecosystem and incubation support as a field of work.

Track 2 has undergone significant changes related to its expected reach and the available financing. In its 2014 Business Plan, the Fund Manager proposed to finance 17,600 SMEs with an initial fund capital of €175 million. The 2016 Business Plan reduced the estimated results of the €175 million investment to 3,300 SMEs (on account of the need to work with smaller, more early stage SMEs, over a longer period of time, than originally thought), and adjusted this number to 4,700 to accommodate the capital increase to €270 million, and to 5,600 to accommodate a subsequent capital increase to €327.5 million.

IF/FI selection and rejection. The selection and rejection of IF/FIs is based on the need to build and maintain a portfolio that collectively meets a range of requirements (additionality, risk-taking, targeting, spending commitments, demonstrations effects and revolvability); limits (proportions of investment capital in IF/FIs, currency exposure limits and country limits); country priorities (low income countries, focus countries and fragile states); and priority target groups of entrepreneurs (entrepreneurs in fragile states, women entrepreneurs and young entrepreneurs). All IF/FIs are also appraised for their compliance to principles related to CSR. However, non-compliance to CSR may not necessarily be reason to reject an IF/FI, and could instead require an action plan to move towards compliance. Main reasons for choosing not to engage with an IF/FI were related to strategic fit, the IF/FI's quality, the risk of the investment, the sectors it operated in and its lack of SME focus.

Key data. An overview of the Track 2 portfolio as of 31 December 2019 is provided in Table 3. At the end of 2019, Track 2 had active investments in 42 IF/FIs (two had exited), against the Fund Manager's 2014 estimate to engage with 40 IF/FIs. Most investments (27) involved banks and microfinance providers (16 active investments in block 3) and high-risk pioneer funds (11 active investments in block 4). In addition to its investment activities, Track 2 supported 16 early-stage initiatives through seed capital, 17 technical assistance projects, 12 knowledge projects and 13 incubation and ecosystem development initiatives. Out of €327.5 million funding pledged by MFA, €326 million has been committed, of which €188 has been disbursed.

Across the investment blocks, 21% of capital was invested in women-owned SMEs, 21% in young entrepreneurs, and 20% in fragile states, against MFA targets of 15% for each of these groups. Track 2 reached 40 DGGF countries. The largest volumes of investments were made in Georgia, Kenya, Nigeria, and Sri Lanka.

Table 3: Track 2's key data, as of 31 December 2019

A. Financial data	In million euros and percentages	
Capital allocated to DGGF2 Investment Portfolio	327.5	
Capital committed to Investment Funds and Financial Institutions	326.0	
Block 1 - Mezzanine finance	32.6	10%
Block 2 - private equity fund	70.7	22%
Block 3 - Banks, MFIs	88.0	27%
Block 4 - Pioneer private equity fund	101.3	31%
Block 5 - High Risk High Impact private equity fund	33.4	10%
Excludes two investments that were already reimbursed		
Capital disbursed to Investment Funds and Financial Institutions	187.6	
Block 1 - Mezzanine finance	29.5	9%
Block 2 - private equity fund	29.3	9%
Block 3 - Banks, MFIs	84.2	26%
Block 4 - Pioneer private equity fund	33.3	10%
Block 5 - High Risk High Impact private equity fund	11.3	3%
Excludes two investments that were already reimbursed		
Proportion committed capital against allocation	100%	
Proportion disbursed capital against allocation	57%	
Ratios do not take account of costs charged to fund capital and fund income		
Capital allocated for seed capital and technical assistance	40.5	
Capital committed to seed capital and technical assistance	33.2	
Early stage finance (cumulative)	20.0	60%
Technical assistance/business development (cumulative)	7.9	24%
Knowledge development/sharing (cumulative)	1.4	4%
Incubation/ecosystem development (cumulative)	3.9	12%
Capital disbursed to seed capital and technical assistance	22.2	
Early stage finance (cumulative)	14.3	43%
Technical assistance/business development support (cumulative)	4.3	13%
Knowledge development/sharing (cumulative)	1.4	4%
Incubation/ecosystem development (cumulative)	2.2	7%
Proportion committed seed capital/technical assistance against allocation	82%	
Proportion disbursed seed capital/technical assistance against allocation	55%	

B. Number and nature of investments and SC/TA	Number of investments or projects
Number of active investments	42
Block 1 - Mezzanine finance	3
Block 2 - private equity fund	7
Block 3 - Banks, MFIs	16
Block 4 - Pioneer private equity fund	11
Block 5 - High Risk High Impact private equity fund	5
Excludes two investments that were already reimbursed	
Number of SMEs financed (pro-rated to DGGF2)	6,819
Block 1 - Mezzanine finance	54
Block 2 - private equity fund	8
Block 3 - Banks, MFIs	6,501
Block 4 - Pioneer private equity fund	8
Block 5 - High Risk High Impact private equity fund	248
Excludes two investments that were already reimbursed	
Number of seed capital/technical assistance projects	44
Early stage finance (cumulative)	16
Technical assistance/business development support (cumulative)	15
Knowledge development/sharing (cumulative)	
Incubation/ecosystem development (cumulative)	13

C. Features of IF/FIs and local SMEs	Actual	Target
Female entrepreneurs against MFA's 2018 target (% capital)	21%	15%
Young entrepreneurs against MFA's 2018 target (% capital)	21%	15%
Fragile states entrepreneurs against MFA's 2018 target (% capital)	20%	15%

3.6 Background of Track 3

Purpose and set-up. Track 3 aims to facilitate development-relevant exports from the Netherlands to DGGF countries. To achieve this, it offers export credit risk insurance to Dutch SMEs to export capital goods to DGGF countries, which can be complemented by supplier credit (in the form of bill of exchange financing) to the importers from DGGF countries. This insurance is also available to banks which finance the transaction. Track 3 only provides these products for development-relevant exports that do not qualify for regular insurance or financing, including the EKV product (the export credit insurance facility of the Netherlands).

In addition, Track 3 may provide technical assistance to improve the efficiency, development relevance and CSR compliance of export transactions that use or may use Track 3 products.

Changes over time. Until 2018, the Fund Manager required MFA approval for each of its agreements. This is no longer the case.

Reflecting the modest demand, the allocation to Track 3 was reduced from the initial €175 million to €125 million in 2015. Following up on this lack of demand, MFA requested the Fund Manager to make changes in criteria and conditions in order to increase the number and volume of Track 3 transactions.[18] In 2018, the maximum transaction amount that can be insured increased from €15 to €30 million and the maximum bills of exchange increased from €2 to €5 million per contract. The eligibility of non-SME exporting firms expanded, and financing options broadened to include working capital of the Dutch exporters. This did not result in a substantial boost to the use of Track 3's financial products (with 0, 2, 11, 15, 8 and 10 transactions per year, for 2014-19).

SME selection and rejection. Potential export transactions of eligible applicants are appraised against DGGF transaction criteria: the export needs to be to a DGGF country and the amounts for insurance and supplier credit need to be within DGGF thresholds. The Fund Manager also appraises financial risks, development impact and CSR compliance. Exports are not eligible if they can be financed through non-DGGF products. A potential transaction is considered acceptable in terms of development impact if a positive impact is expected in the area of knowledge transfer, local production capacity or local employment, and if the impact of the transaction is not expected to be negative in any of these areas. If a potential transaction is deemed acceptable, DGGF provides a commitment to cover the export transaction, which is valid for six months, with a possibility to extend. In the period until the end of 2019, 46 applications resulted in an insurance policy; 28 applications were rejected because the applicant provided insufficient information, and seven were rejected due to risk considerations. Accepted applications were in the fields of industry (70%), agriculture (13%), medicine (9%) and other sectors (8%). Rejected applications were in the fields of agriculture (51%), construction (19%), industry (11%), medicine (9%) and other sectors (10%).

Key data. An overview of the Track 3 realised cumulative portfolio as of 31 December 2019 is provided in Table 4. Track 3 concluded 46 export transactions, to a total of 27 Dutch exporters. The Fund Manager reported that some transactions support exporters to target new markets, but they do not generally support the export of new products. Thirty of the transactions included supplier credits via bill of exchange financing. By the end of 2019, Track 3 cumulative commitment amounted to €64 million, or 37% of the earlier and 51% of the later capital allocation of €175 million and €125 million respectively. Fifteen of the DGGF policies were for exports to fragile states. Data on exports to female-owned or youth-owned SMEs are not available. Track 3 supported exports to 21 countries, with most policies concluded for exports to Mali, India, Ghana and Nigeria.

[18] No changes were made in order to recalibrate the balance between risk-taking and revolvability, improve development impact, reach more young and female entrepreneurs in DGGF countries, reach more entrepreneurs in fragile states, or achieve a gender balance in employment.

Table 4: Track 3's key data, as of 31 December 2019

A. Financial data	In million euros and percentages
Capital allocated for financial products	125.00
Issued policies and promises to cover	64.32
> Of which: Export credit insurance	40.27
> Of which: Bills of exchange	24.05
Proportion committed capital against allocation*	51%
Capital allocated for technical assistance	2.00
Technical assistance expenditure	0.30
Proportion expenditure against allocation	15%

B. Number and nature of investments and TA	Number of transactions and clients
Number of export transactions	46
> Of which: included supplier credit	30
> > Did not include supplier credit	16
Number of Dutch clients concluding export transactions**	27
Number of local clients concluding import transactions**	37

C. Features of Dutch and local SMEs/Ifs	Number of entrepreneurs
Entrepreneurs in fragile states ambition (actual)	15

* This table does not include disbursement information (€9.48 million as of the end of 2019) because the level of disbursement is not an appropriate indicator of performance for insurance-related products.
** The number of Dutch and local clients concluding transactions is lower than the total number of transactions, since several Dutch and local clients concluded multiple transactions.

4. Relevance

This section is about the assumptions that underpin DGGF work, and about the extent to which the DGGF approach logically relates to the Fund's stated aims. It is *not* about the extent to which DGGF has been successful. The section:

- Assesses the premises that DGGF operates in underserved markets and that, in these markets, DGGF offers financial products and services that are additional to what is already available (4.1-4.4).
- Reviews how DGGF's set-up and design equips its instruments to comply with the Minister's results commitments to Parliament (4.5).
- Checks if adaptations to the DGGF instruments reflect shifts in political priorities and learning, and if they are an appropriate response to the initially modest demand for DGGF products and services (4.6).

In the remainder of this report, all sub-headings represent key findings, and every section ends with a summary of conclusions.

4.1 There are no readily available alternatives to DGGF's products and services for Dutch SMEs that wish to invest in or export to DGGF countries.

Track 1 and **3** were designed based on the premise that:

> ***1 – In the Netherlands, banks and other financial institutions are increasingly reluctant to finance investments in and export to developing countries.*** *Especially Entrepreneurs in the SME segment are limited in their access to finance, because banks consider them to be 'risky'. … Local funding, as a possible alternative, is often difficult because of limited financial infrastructure, high costs and limited knowledge of Dutch business.*[19]

Baseline and endline interviews with banks and SMEs confirmed that investment capital for SMEs to invest in and export to DGGF countries is hard to access. Financing options became particularly hard to find after the 2009 financial crisis, which led to banks reducing their risk exposure, partly because of a more stringent regulatory environment.

4.2 SMEs in DGGF countries are financially underserved.

Track 2 was designed based on the premise that:

> ***2 – In developing countries there is … a lack of finance for SMEs.*** *… SME financing is limited by high transaction costs and high perceived risks.*[20]

The World Bank confirms that access to finance is a key constraint to SME growth in developing countries (with an estimated US$4.5 trillion finance gap amongst formal SMEs), and that it is the second most cited obstacle facing SMEs that wish to grow their businesses in

[19] MFA (4 December 2014) *Terms of Reference for the policy evaluation; the Dutch Good Growth Fund 2014-2019*, page 7.
[20] MFA (4 December 2014) *Terms of Reference for the policy evaluation; the Dutch Good Growth Fund 2014-2019*, page 7.

developing countries and emerging markets.[21] The thematic fund evaluations and our country visits confirmed that most of the DGGF funded SMEs were unable to access sufficient levels of (investment) capital through other channels.

In the sub-group of DGGF countries, this phenomenon of the 'missing middle' is more pronounced than in the world at large: SMEs in at least 41 of the 70 DGGF countries are in the world's bottom half of *SME access to finance*.[22] Their financing constraints add to the more general problem that 70% of the DGGF countries (49 out of 70) are in the world's bottom half of the global *Doing Business ranking*.[23]

4.3 Within the group of DGGF countries, DGGF invests mostly in countries where the constraints faced by SMEs are relatively modest. This has benefits.

65% of the value of DGGF investments flow to countries in this sub-group's top-scoring half on the *SME access to finance* indicator, and 70% to countries in this sub-group's top-scoring half on the *Doing Business index*. This gravitation towards the better-performing countries means that a fund that formally aims to address missing middles is sometimes, in reality, addressing underserved niche markets in countries that do not *have* an overall missing middle. This has three advantages:

1. The investment risks are higher, and likely financial results may be lower, in countries with particularly poor financial infrastructure and business environments, and there is therefore a trade off between the extent of the missing middle and the Fund's revolvability.
2. In countries with a large missing middle, such as DRC and Liberia, Track 2 has few options and therefore invests in sector-agnostic IF/FIs. The development impact of Track 2's investments is likely to be higher if there is a choice of IF/FIs to engage with. In countries such as India and Kenya, for example, Track 2 is able to focus its investments on niche markets with particularly high potential development impact, such as start-up financing for agro-tech companies, or financing for medical facilities.
3. For Track 2, the investment portfolio would have grown more slowly if it had prioritised investments in countries with the most embryonic financial sectors (e.g. Yemen, Somalia, Libya, Chad). This is because the currently viable investment opportunities in these countries are limited and latent, and there are almost no IF/FIs that cater for SMEs and have investments needs that are aligned with the DGGF mandate.

4.4 DGGF direct and indirect financial products are sufficiently additional to the market.

The Minister's 2013 intention was that investments would be "additional to the market" and would "not compete with other funds".[24] The foundational documents for each of the tracks

[21] Text paraphrased from the overview and amount at https://www.worldbank.org/en/topic/smefinance, accessed on 17 May 2020. Note that this 'missing middle' often co-exists with poor business planning, legal obstacles and a shortage of claimable collateral, which translates into a shortage of credible SME demand for financial products and services. It is therefore common for financial institutions and investment funds that operate in underserved SME markets to nonetheless be unable to invest available capital.
[22] World Economic Forum, *Global Competitiveness Report 2019*, link, indicator 9.02 on 'Financing of SMEs'. The figure of 41 countries is a minimum number, because the 2019 Global Competitiveness Report lists only 140 countries. Non-listed countries are likely to be in the bottom half so, with 195 countries in the world, we used 98 as the cut-off point, and included all non-listed DGGF countries, to come to 41 countries. The non-listed DGGF countries and territories are Afghanistan, Bhutan, Djibouti, Eritrea, Haiti, Iraq, Kosovo, Liberia, Libya, Myanmar, Niger, Palestinian Territories, Sao Tomé & Principe, Sierra Leone, Somalia, South Sudan, Sudan, Surinam and Togo.
[23] Based on the World Bank's *Doing Business Ranking*, link, accessed on 23 April 2020.
[24] Letter to Parliament (30 September 2013): *Ondernemen voor ontwikkeling: investeren in duurzame en inclusieve groei*, page 19.

similarly emphasised that DGGF "will not compete with existing funds"[25] and "must only finance investments that would not happen without the Fund's contribution".[26]

Once the Fund had launched, views on the importance of additionality among staff within MFA and the Fund Managers became more diffuse, and at the time of our interviews they ranged from "crucially important" to "not essential" and "one of a range of factors we are considering in parallel". Interpretations as to what additionality *means* also vary. Some say that additionality means a total absence of alternative sources of finance ("DGGF starts where others stop"). Others argue that this is a "narrow definition [that] does not take into account the size of the potentially unmet demand and the fact that a functioning ecosystem requires the presence of several investors to (a) share the risk of investments and (b) add value to investees on different dimensions and according to their strengths."[27]

Each track operationalised additionality in its own way. The Fund Manager of **Track 1** considers an agreement additional if at least one commercial financier rejected a financing application and the SME's investment would therefore not have taken place without an agreement with DGGF. The Fund Manager of **Track 3** considers an agreement additional if a transaction is not acceptable in its EKV facility, which itself exclusively covers risks that cannot be covered in the commercial market.

We found the DGGF *ex ante* assessment of additionality to be reasonable for our full sample of 15 companies that received Track 1 or 3 financing (out of a total of 57 Dutch SMEs).[28] Our visits and interviews confirmed that this assessment proved to be fully correct, *ex post*, in most cases (10) and partly correct in most of the remaining cases (three, as investments and exports would have taken place, but at a smaller scale). In only 2 out of the 15 cases of our sample, companies would have proceeded, at the same scale and within the same timeframe, without DGGF involvement. This is an acceptable outcome, as companies are aware that their applications are only considered if they have no other options, and are therefore unlikely to disclose their alternatives to the Fund Manager.

The Fund Manager of **Track 2** stated, in its 2014 Business Plan, that Track 2 could "be 100% additional to the market".[29] In the following years, the Fund Manager often discarded investment opportunities because the funds would be able to close without DGGF involvement – but the full 100% additionality criterion proved untenable. The Fund Manager therefore uses a system that requires its overall investment portfolio to be broadly additional, *on average*, in two ways: (1) the DGGF funding needs to be broadly additional to IF/FIs (see Box 2 for the scoring criteria), and (2) IF/FIs' financing needs to serve underserved SME markets.

Box 2: Track 2's funding additionality scoring criteria

To assess the additionality of an IF/FI investment, the Track 2 Fund Manager scores 0, 1 or 2 on four criteria, a total score of 4 or more is taken as '100% additional':

- The extent to which the Fund Manager would take higher risks than other investors, provided that these higher risks are of value to the IF/FI by enticing other investors to follow.

[25] This is for Track 1 and from RVO (2014) *Definitieve offerte Dutch Good Growth Fund (DGGF), onderdeel 1*, page 6.
[26] This is for Track 2 and 3 and mentioned in Uitvoeringsorganisatie Bedrijfsvoering Rijk (20 March 2014) *Beschrijvend document Fondsbeheerder DGGF onderdeel 'Financiering Lokaal MKB'*, page 30; with a similarly-worded statement as criterion 1 of MFA (15 July 2014) *Start onderdeel 3 DGGF*, page 2.
[27] This quotation is from written communication between the Track 2 Fund Manager and the evaluation team, 10 April 2020.
[28] Excluding technical assistance agreements, which sometimes include a 'repayable grant' that is repayable in case of entrepreneurial success only.
[29] Triple Jump and PwC (2014) *Track 2 Business Plan; attachment 4 to the tender document*, page 19.

- The absence, or not, of interest among mainstream sources of capital in investing in an investment fund, or in financing SME-focused products of a financial institution.
- Whether DGGF's investment enables an IF/FI to reach a minimum viable fund size, or to add an additional country or a new SME produce, or to implement a development-relevant strategy or recruit particularly valuable people.
- 'Other relevant factors.'

This means that, in a minority of cases, the Track 2 Fund Manager can choose to make IF/FI investments that are not highly additional. This happened for two reasons:

- In the early years of Track 2, the Fund Manager made non-additional investments to accommodate MFA's pressure to build an investment portfolio quickly. Among the 14 investments we considered, three of the earliest (2015 and 2016) investments were of this type.
- In later years, the additionality requirement could be eased if other dimensions of an investment were particularly attractive. We saw this only once in the remaining 11 investments we looked at.

This same principle of *average* additionality also enables the Fund Manager to occasionally invest in IF/FIs that are not themselves focused on particularly underserved SME markets. We defined an investment or a financial product as additional if the SME could not easily access comparable financial products through other channels[30] and found that, of the 14 IF/FIs that we reviewed, eight provided financial products that were truly additional. In five cases, comparable or substitute financial products were available, albeit not with the same conditions. In only one case, the products were not additional to the market – and in this case DGGF terminated its engagement and requested (and received) a reimbursement of its capital.

Our sample confirms that DGGF's capital utilisation is not as strictly additional as it was originally intended to be. Instead, and depending on the context, DGGF regularly operates in markets that are also served by angel investors, impact investors and, in some cases, commercial banks. However, these markets are not saturated, so DGGF investments mostly *add to* rather than *replace* other investments. Achieving stronger additionality is possible, but there is tension between strong additionality and requirements such as risk-taking, portfolio spread, targeting, spending commitments, and revolvability. We conclude that, across the tracks and considering the many other requirements that DGGF products need to meet, DGGF has a reasonable balance: the additionality of DGGF products is sufficient for DGGF to be a relevant addition to the market, and not so strong that it stifles operations or decisively impedes revolvability.

4.5 The DGGF set-up responds to some but not all result commitments made in Letters to Parliament.

In her Letters to Parliament, the Minister made DGGF-related commitments in relation to Dutch trade and development effects (each highlighted in bold italics, below). This sub-section considers if these commitments are reflected in the DGGF design. In the remainder of the report, we assess the DGGF results against these commitments (see Table 5 for sub-section references), as well as commitments that are a means to an end, such as the speed of disbursements or the revolvability of the Fund.

Though DGGF has changed and added to its portfolio of products and services during the review period, all observations made in this sub-section apply to the full review period.

[30] This SME-specific *ex post* definition is different from the inevitably more general *ex ante* definition used by the Fund Manager.

Table 5: The relevance of DGGF's design against trade and development commitments

	Embedded in design?	Section in which we discuss results
Success of Dutch companies	Yes	7.1, 8.1 and 9.1
Success for female entrepreneurs, young entrepreneurs, and entrepreneurs from fragile states	Somewhat	7.3
Job creation	Yes	7.4 and 9.2
Additional production capacity	Yes	7.5 and 9.2
Knowledge transfer	Yes	7.6 and 9.2
Proportionality of investment size and development effects	No	7.7
Success in low-income countries	In Track 2 only	7.8
Reduced irregular migration flows to Europe	Yes, but inappropriately so	Not discussed again
Positive environmental and social effects	Somewhat	7.9
Inclusive growth	No	8.2-8.4
Opportunities for vulnerable groups	No	8.2
Poverty reduction	Yes	8.2-8.4
Demonstration, to banks, that SMEs in DGGF countries are a viable asset class so that, in time, they will finance such transactions themselves	Untested	9.5

- Track 1 and 3 are designed to be relevant for the *success of Dutch companies* in particular, by tying their instruments to investments and exports made by Dutch companies only.
- **All three tracks include elements that relate to the DGGF's aim of *supporting female entrepreneurs*, *young entrepreneurs*, and *entrepreneurs from fragile states*.** MFA instructed all fund managers to support these three groups of entrepreneurs, and set specific portfolio-level targets for Track 2, in the form of 15% minimum proportions of investments to each of the three overlapping target groups. In its 2014 Business Plan, Track 2's Fund Manager defined targets that were more ambitious than MFA's targets had been (25%, 25% and 15% respectively). Track 1 and 3 do not have comparable targets, either set by MFA or by the Fund Managers. However:

- In 2016, the Fund Manager of Track 1 mentioned the 'ambition' to reach 11 women-owned and five youth-owned companies by the end of 2018.[31] In addition, Track 1 may consider charging lower interest rates for investments in fragile states.
- In Track 3, "cooperation with female and young entrepreneurs in DGGF countries, and with entrepreneurs in fragile states" is one of the seven outcomes of the result chain.[32]

- **All tracks are designed to *support employment creation*, the *increase of production capacity* and the *transfer of knowledge*.** All investments are assessed against these effects and are only considered for approval if none of these effects is negative.[33]
- **DGGF did not operationalise the commitment that *development effects should be more or less proportional to the size of an investment*.** There are no red lines and the Fund Managers do not have 'bang for the buck' (as this type of yield is called in MFA's evaluation questions) targets per unit of investment.
- **A focus on *low-income countries*, within the wider group of DGGF countries, is formalised in Track 2 only.** Track 2 has a target for this (more than 50% of the value of its investment portfolio); Track 1 and 3 do not.
- **Track 2 followed up on the assumed causal link between youth entrepreneurship and employment prospects and *irregular migration flows to Europe.*** DGGF's mid-term review of September 2015 added the aim to create employment and raise entrepreneurial prospects for young people in African countries that generate or transit significant irregular migration flows to Europe. This was meant to reduce these irregular migration flows. In 2015, €20 million was allocated for work that served this aim,[34] and this new work stream was reinforced by the later introduction of 'focus' countries and regions.

  Following up on this new aim, Track 1 added a budget line for loans and guarantees in focus regions, which would move towards "the edge of market conformity" to reach young target groups.[35] Track 2 incorporated a focus on entrepreneurial and job opportunities for young people in these focus countries.
- The assumption that DGGF could contribute to the reduction of these flows is empirically incorrect, as improved opportunities in low and lower middle-income countries *increase* rather than *reduce* people's propensity to migrate.[36] We do not revisit this issue in the effectiveness section.
- **DGGF pays attention to each investment's *environmental and social effects*.** Both are assessed as part of, at least, each investment's approval process, and DGGF requires action plans to address anticipated negative effects.
- **The design of DGGF is not geared towards *achieving inclusive growth* or to *creating opportunities for vulnerable groups.*** Inclusiveness is what DGGF is meant to "add" to the Dutch government's work pillar on sustainable growth because "growth and a fair

[31] RVO (29 November 2016) *Offerte 2017 Ministerie van Buitenlandse Zaken*, page 6.
[32] MFA (15 July 2014) *Start onderdeel 3 DGGF*, page 5.
[33] Opinions expressed during interviews were not always aligned with this formal rule, and some stakeholders believe that a negative effect on employment is acceptable if it is caused by a significant technological upgrade that leads to significantly higher production capacity.
[34] Letter to Parliament (1 October 2015) *Mid-Term Review Dutch Good Growth Fund*, pages 2 and 11.
[35] RVO (25 August 2015) *Investeringsbeleid DGGF onderdeel 1*, page 7.
[36] Among many other publications, see Haas, H. de (2006) *Turning the tide? Why 'development instead of migration' policies are bound to fail*, link; Haas, H. de (2012), "The migration and development pendulum: a critical view on research and policy", *International Migration*, volume 50, number 3, pages 8-25; and the meta-study DFID (January 2018) *Understanding the impact of livelihood opportunities and interventions on migration patterns*, link. We are aware of a single piece of research that comes to the conclusion that there is an inverse correlation between economic development and outward migration within low- and middle-income countries (which had not yet appeared by the time of the DGGF decision to focus on 'migration countries'), that is Benček, D. and Schneiderheinze, C. (December 2019) "More development, less emigration to OECD countries – identifying inconsistencies between cross-sectional and time-series estimates of the migration hump", *Kiel Working Paper*, link.

distribution do not always come together".[37] The Fund's name is based on this (it is a *good* growth fund) and a number of Letters to Parliament emphasise this commitment to inclusivity with texts such as this one:

> *The Dutch Good Growth Fund … supports economic activities that … create opportunities for everybody to participate fully in the economy and society … It is not just the growth of the economy that matters in the fight against poverty. A more equal access to wealth across all parts of society, decent work conditions and a clean environment are equally important.*[38]

Notwithstanding the prominence of the commitment, the issue of inclusivity is not embedded in DGGF's design. Instead, the DGGF Theory of Change assumes a causal link between the DGGF's three types of development results – employment creation, production capacity increases and knowledge transfer – and the DGGF impact goal of sustainable inclusive development.[39] This assumption is not straightforward: investments that employ people from, and produce things for, the upper part of a developing countries' dual economies may achieve all three results while widening inequality.

MFA has not provided guidance on the issue and does not incentivise a focus on inclusiveness. Fund Managers do not collect metrics on effects that relate to inclusivity. Within DGGF documentation we saw very few references to the issues. We saw no documented evidence of discussions about the meaning of the terms 'inclusivity' or 'vulnerable groups'; or the operationalisation of the DGGF's foundational commitment for growth to be 'good'.

- **The creation of employment and the DGGF stipulation that companies should pay their employees living wages are both relevant to poverty reduction.**
- **The assumption that a DGGF-type instrument could *demonstrate, to banks, the profitability of development-relevant transactions so that, in time, they will finance such transactions themselves* has not yet been tested.** The importance of the desire to "phase in the private financial sector" and "demonstrate … that SMEs are a viable asset class" is reiterated in DGGF's foundational documents[40] and interviews ("*this* is what matters"). However, we are unaware of research that substantiates the plausibility of this assumption,[41] and the literature review that MFA intended to commission, to test this assumption, was never conducted. Theoretically, an equally plausible (and equally unsubstantiated) argument could be that subsidised finance demonstrates the opposite – that SMEs cannot be financed commercially.

4.6 The introduction of new DGGF instruments, and adaptations in existing ones, were relevant to the purpose they were meant to serve.

During the review period, DGGF loosened some of its conditions and introduced new instruments (see the track-specific parts of the Background section). Mostly, DGGF did this to increase the demand for DGGF products, and because of shifting political priorities. In the case

[37] MFA (4 December 2014) *Terms of Reference for the policy evaluation; the Dutch Good Growth Fund 2014-2019*, page 6.
[38] This is part of the first paragraph of the management summary of the DGGF's foundational Letter to Parliament: Letter to Parliament (30 September 2013), *Ondernemen voor ontwikkeling: investeren in duurzame en inclusieve groei*, page 1, link.
[39] In a theory of change, the 'impact' level is typically above a programme's or fund's accountability threshold, which means that it is not part of the programme or fund manager's operational reality.
[40] Government of the Netherlands (20 March 2014) *Beschrijvend document Fondsbeheerder DGGF onderdeel 'Financiering lokaal MKB* (which is the Track 2 tender document), Section 3.3 on page 22.
[41] A now possibly outdated (2012) literature review that focuses on demonstration effects for infrastructure investments in particular concluded that "evidence on … demonstration additionality is … scarce". Spratt, S. and Ryan Collins, L. (August 2012) *Development Finance Institutions and Infrastructure; A systematic review of evidence for Development Additionality*, IDS and PIDG, page 27, link.

of **Track 1** and **2**, some of the new financing and non-financial support options were introduced to increase development impact, and to target certain types of investments (such as in start-up companies, and in companies in fragile states). In all tracks, the rationale of the various modifications and additions was clear, and they were relevant to the purposes they served.

4.7 Conclusions on DGGF's relevance

DGGF's two foundational assumptions are correct:

- Insufficient access to finance hinders the SME sector in DGGF countries, as well as Dutch SMEs with an interest in investing in or exporting to these countries.
- DGGF is able to provide financial products and services to financially underserved SMEs without competing with the private financial sector.

DGGF's set-up relates to the direct result commitments made by the Minister, albeit without attention to the commitment that results are roughly proportional to investment size:

- As a partly tied aid instrument, DGGF directly supports Dutch trade objectives.
- DGGF investment criteria are linked to the direct development effects of jobs creation, production capacity and knowledge transfer.
- Parts of DGGF target investments in low-income countries and fragile states.
- Parts of DGGF target women- and youth-owned companies.
- All tracks systematically consider the likely environmental and social effects of investments.

However, DGGF does not fully respond to the longer-term and indirect results set out by the Minister:

- The stated criterion of companies paying living wages, and the focus on employment creation, mean that poverty reduction is somewhat embedded in the DGGF design.
- However, DGGF is not designed to systematically seek out investment opportunities that foster inclusive growth or that empower vulnerable groups. Investments could have the opposite effect, yet meet all DGGF's criteria. This is a matter of fund design, and DGGF could resolve this issue by changing performance indicators, incentives and eligibility criteria.
- Moreover, the DGGF is set up to improve financing in underserved SME markets and could, in the process, showcase what regulatory changes could usefully be made and what DFI instruments work well in different contexts. However, DGGF's assumption is that a subsidised fund could demonstrate, to the private financial sector, that SMEs in DGGF countries, and Dutch SMEs that focus on investments in or exports to DGGF countries, are viable investment classes for commercial investments. This is implausible and has not been confirmed by empirical research.

  Lastly, the assumption that DGGF's development results could reduce irregular migration flows to Europe has been disproved by almost all empirical research. The opposite is true: in low- and lower middle-income countries, better prospects increase people's propensity to migrate. DGGF is not likely to reduce irregular migration flows, with or without changes in design.

5. Policy coherence

This section covers the OECD new (December 2019) evaluation criterion of 'coherence', and IOB's criterion of 'policy consistency'.[42] By comparing DGGF's operations with stated commitments of the Government of the Netherlands, this section provides input to the wider issue of "the extent to which interventions performed from different perspectives [by the Government of the Netherlands] are coherent with and do not obstruct each other".[43]

5.1 With a few exceptions, DGGF is aligned with the wider policies, agendas and commitments of the Government of the Netherlands.

DGGF is broadly aligned with, and part of, the Dutch government's support to private sector development, its *Aid for Trade* agenda, and the commitments made in *A World to Gain*. The Fund contributes to achieving the Sustainable Development Goals (and particularly to achieving goals 8 and 9) and other international commitments in the fields of private sector development and job creation.

We saw three fields in which there is a misalignment between DGGF practice and the wider policies, agendas and commitments of the Government of the Netherlands.

1. Contrary to the original intention, all DGGF has been registered as ODA.[44] This is problematic because **Track 1** and **3** are forms of tied aid, and

   > *Members of the OECD's Development Assistance Committee (DAC) agree to the objective of untying their bilateral Official Development Assistance (ODA) to the Least Developed Countries (LDCs), Heavily Indebted Poor Countries (HIPCs), Other Low-Income Countries (OLICs) and IDA-only countries and territories.*[45]

   The Netherlands is a member of OECD/DAC and did not object to this recommendation – yet 49 of the 70 current DGGF countries fall in one or more of these country groups. In its 2017 country peer review, OECD advised against the tying of DGGF products and services:

   > *The Netherlands' record on untied aid has been strong. However, while 92.7% of bilateral commitments were untied in 2015, this marks a decline from 100% in 2010 … To arrest this decline, and thereby continue to improve value for money, the Netherlands should avoid designing private sector instruments that are tied to Dutch business interests.*[46]

[42] See OECD (December 2019) *Evaluation criteria*, section on coherence, link; and IOB (October 2009) *Evaluation policy and guidelines for evaluations*, section 4.3.6, link.
[43] IOB (October 2009) *Evaluation policy and guidelines for evaluations*, section 4.3.6, link, page 21.
[44] *A World to Gain*, of 2013, said that DGGF will consist of a mix of ODA and non-ODA investments (page 60, link), and the 2017 OECD Development Co-operation Peer Reviews for the Netherlands said that "funds which are earmarked for Dutch enterprises are not reported as ODA" (page 30, link). In reality, the Dutch government's DGGF investment was registered as 100% ODA. See Tweede Kamer (7 November 2017) *Vaststelling van de begrotingsstaat van Buitenlandse Handel en Ontwikkelingssamenwerking (XVII) voor het jaar 2018*, 34 775 XVII, question 42.
[45] OECD-DAC (24 January 2019) *Revised DAC recommendation on untying ODA*, section 1, link. For a historical overview of DAC's recommendations in this field, which predate DGGF, see the historical section of OECD's *Untied aid* page, link.
[46] OECD (2017) *OECD Development Co-operation Peer Reviews for the Netherlands*, page 63, link).

2. DGGF insists on equal pay for equal work,[47] but otherwise facilitates the creation of jobs that generally follow local conventions on the gender-based division of labour. This observation applies to both job types (women cut and sort flowers, men operate equipment) and people's place in the hierarchy (women are significantly underrepresented in management positions, and significantly overrepresented amongst the casual and lowest-paid workers).

   This is not aligned with the Dutch government's overall commitments on breaking through gender patterns where such patterns put women at a disadvantage,[48] or with the Minister's position on this issue in relation to the *Aid for Trade* agenda, which is that:

   > *Women are still more likely than men to experience unfavourable and even dangerous working conditions. … By advancing the Aid for Trade agenda as part of our shared efforts towards 2030, women can be … better positioned to … enjoy equal rights and good working conditions.*[49]

3. Some projects have positive environmental effects (by investing in solar power, transport optimisation and solid waste recycling, for example), but other investments achieve development gains at high environmental costs. Daily flower containers are airfreighted intercontinentally from Africa, and DGGF made investments to finance the production of single-use plastic (PET bottles and plastic wrap), as part of FMCG supply chains in countries without functioning recycling systems. In interviews, key stakeholders emphasised that DGGF and the IF/FIs it works with chose to make these investments based on a balance of costs and benefits. We did not see a documentation trail of such cost-benefit analyses.

   Investments with high environmental costs are not aligned with commitments made in *A World to Gain*, which says that

   > *… the pressure on our environment is increasing, with climate change, environmental degradation and loss of biodiversity as a result. Supply chains must be made more sustainable.*[50]

5.2 Conclusions on policy coherence

With three exceptions, DGGF is aligned with the commitments made in *A World to Gain* and other policies, agendas and commitments of the Government of the Netherlands.

[47] Visits to companies without DGGF-financed investments confirmed that this is not the standard, in at least some of the sectors DGGF-supported companies operate in.
[48] Government of the Netherlands (2018) *Gender and LGBTI Equality Policy Plan 2018-21; Putting principles into practice*, Chapter 1 on the labour market. The observation that there is tension between the prominence of gender equality in Dutch development politics and the limited manner in which DGGF and the wider *Aid for Trade* programming operationalise gender equality (i.e. by setting target percentages for 'women reached') is not new – see Bitzer, V., Van Balan, R., and De Steenhuijsen Piters, B. (2017) *Aid and Trade in Dutch Development Cooperation; what has worked, what hasn't worked? What needs more focus and attention?*, KIT Royal Tropical Institute.
[49] Kaag, S. (28 June 2019) "Aid for Trade can advance women's entrepreneurship, empowerment, equality", OECD, link.
[50] Government of the Netherlands (April 2013) *A World to Gain; a new agenda for aid, trade and investment*, page 14, link.

6. Efficiency

This section assesses how efficiently DGGF capital has been used, over the review period. It covers the following issues:[51]

- The extent to which planned outputs have been delivered (6.1).
- The costs of portfolio development and management (6.2).
- The extent to which business was conducted without unnecessary complications and without more than the minimum necessary administrative burden on investees (6.3).
- The extent to which DGGF has leveraged its capital vis-à-vis other investors (6.4).
- The extent of synergies and duplication within DGGF (6.5 and 6.6).

6.1 Disbursements are significantly behind the original expectations. These expectations were not realistic.

The 2014 plan was that DGGF would disburse €700 million revolvable capital, as well as €70 million that was earmarked for seed capital and technical assistance, by the end of 2017 (see Table 6). Each track received an initial allocation of €175 million. The remaining €175 million would be distributed on the basis of early learning. Allocations were adjusted later, to align with the tracks' respective spending capacities.

The cumulative disbursements and insurance products by the end of 2019 (two years after the original timeline) amounted to €351 million – half the DGGF allocated capital. At that same time, DGGF had spent €37 million on seed capital for new investment funds and various types of technical assistance – a little over half the €70 million originally planned.

Table 6: Planned and actual disbursements, in million euros

	Capital allocated by MFA, at launch and by the end of 2019	Actual disbursements and insurance products (and commitments) by the end of 2019	Seed capital and technical assistance allocated, at launch and by the end of 2019	Seed capital and technical assistance spent by the end of 2019
Track 1	175 → 230	101 (159)	18	14.5
Track 2	175 → 327.5	188 (326)	26.5 → 40.5	22.2
Track 3	175 → 125	64	9 → 2	0.3
Unallocated	175 → 17.5	N/A	16.5 → 9.5	N/A
Total	**700**	**351**	**70**	**37**

[51] Our data did not allow us to assess the extent to which conflict has been prevented or solved, which is therefore the only IOB element of 'efficiency' we do not cover in this section. See IOB (October 2009) *Evaluation policy and guidelines for evaluations*, section 4.3.1, link.

The most important reason for the underperformance against the original disbursement timelines is the nature of the original commitments: decisions about the Fund's capital volume, its initial distribution across the three tracks and the high disbursement speed were inspired by political considerations. They were not underpinned by evidence,[52] and they were unrealistic.

In part, the commitments were unrealistic because of gaps in the Fund Managers' experience, which meant it took time to gain momentum. Track 1's Fund Manager had little experience in managing revolving loan funds and guarantee instruments, and needed time to set up systems and processes, recruit adequate staff, and learn the trade. Track 2's Fund Manager had a background in microfinance rather than SME development and fund-in-fund investments. Track 3's Fund Manager was unfamiliar with the provision of technical assistance, did not have prior experience in assessing an export's development relevance, and had not provided bills of exchange financing to companies before, in DGGF countries or anywhere else.

In part, the commitments were unrealistic because of the nature of DGGF's investments and because of the market that Track 1 inherited from previous grant-giving facilities. For **Track 2**, it takes time to identify appropriate IF/FIs, negotiate agreements and wait for other investors to come together and reach a close. Once a close is reached, investment funds need time to seek out viable investees and make their investments – which is when DGGF's committed capital is actually disbursed.[53] In **Track 1**, companies tend to use their own capital before drawing from DGGF, and the two equity funds that Track 1 invested in need time to develop their portfolios (though they, too, are taking more time than expected). Moreover, Track 1 caters largely for a small group of companies that had used other Dutch government financial instruments in the past, and many of them had grown accustomed to the previous Dutch system of subsidies. This made Track 1's semi-commercial loans a hard sell, in the initial years. Towards the end of the review period, the market for Track 1 products is still modest, and the truly commercial market is smaller still (i.e. some of the clients are social enterprises, and the recent uptick in Track 1 comes from starters and the provision of services with below-market pricing).

There were also inefficiencies. For **Track 1**, disbursements could have been higher if adequate market research had informed the design of the initial products (banks were less interested in co-financing than envisioned, for example), and if the application process had been swifter and more predictable and transparent. Disbursements in **Track 3** could also have been quicker. First, some of its technical assistance was meant to support SMEs in their application process and this could have increased interest, but technical assistance was never actually used for this purpose – though it was the only type of technical assistance that the Fund Manager had expressed an *ex ante* interest in.[54] Second, the marketing could have been more pro-active. The Fund Manager did not initially recruit the Business Developers it currently employs (they started in 2017), and the Fund Manager still by and large limits its marketing efforts to Dutch exporters, without seeking entry points among potential importers.

We conclude that DGGF significantly underperformed compared to the original disbursement timelines. In part, the underdisbursement were the consequence of gaps in the Fund Managers' experience and inefficiencies in DGGF's implementation. However, the primary reason is that DGGF was launched with unrealistic expectations.

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[52] The closest to 'substantive grounds' were the findings from a Birch Consulting's report that said that, among Dutch companies, there was a potential market of €150 million for investments in DGGF countries, and between €100 and €200 million for exports to DGGF countries. Birch Consulting (September 2013) *Dutch Good Growth Fund onderzoek en aanbevelingen*.

[53] This explains why Track 2 was a little *over*committed at the end of 2019, even though it had only disbursed 57% of its allocated capital. It also explains the prominence of block 3, in Track 2's disbursement, because block 3 is not an equity but a lending block, and its disbursements do not have to wait until investments opportunities have been found and finalised.

[54] MFA (15 July 2014) *Start onderdeel 3 DGGF*, page 28 (or 67 of the full document).

6.2 Per unit of investments, the costs of DGGF's portfolio management have been high, but they are coming down.

Each Fund Manager has its distinct management fee system. Calculations and considerations are therefore track specific. We cover them in turn.

The Fund Manager of **Track 1** charges largely on the basis of the time its staff spends on DGGF. Over the review period staff costs were lower than predicted in the initial offer (€10 million versus €15 million), but this time was invested to build and manage a portfolio that was significantly smaller than originally estimated, so unit costs have been higher than planned. 'Start-up costs' (which the Fund Manager presents separately because they are not part of the revolvability requirement) have been nearly four times the original estimate, and they continue to increase, now under the title of 'one-time expenses', a type of expense that did not exist in the original plan. Except for a four-year ICT investment, these start-up costs were originally meant to occur in the first year only, and the total amount, including ICT, was estimated to be €1.4 million. By the end of 2019, start-up and one-time expenses amounted to €5.5 million cumulatively.

Until the end of 2018, the cost-efficiency (defined as the management costs as a percentage of the capital disbursed) remained well above the estimated 3.2% level. In 2018 it was 3.7%, and this included neither reservations for loan losses nor the costs for DGGF communication and its use of a one-stop shop named *1Loket* (neither of which are covered by DGGF). However, the costs as a proportion of the capital disbursed have been declining each year, as the costs remained largely constant since 2016 (the difference between 2016 and 2019 is only 17%), while the value of the portfolio increased. If we take the 2019 year-end portfolio value (i.e. accumulated disbursement minus recoveries) as the denominator, and do not incorporate costs covered from non-DGGF budgets or a reserve for loan losses, the cost-efficiency is 3.1% (€2.64 million against total disbursements of €84.73 million). This makes 2019 the first year in which the Fund Manager met its initial efficiency target, albeit with exclusions, and it is likely that the Fund Manager will continue to meet this target in the years to come.

The Fund Manager of **Track 2** charges a management fee that is higher than the management costs of three out of the four DFIs we compared it with.[55] Because Track 2 is underdisbursed, the Fund Manager's fee is considerably higher if measured against *disbursed revolving* capital rather than *available total* capital (disbursed or not). This percentage will come down as the ratio between disbursed and available capital climbs to 1.

Track 2 invests via IF/FIs, and their portfolio management costs add to DGGF's total costs. We considered the management fees (compared to other IF/FIs), progress in fund investments and portfolio quality for 14 of Track 2's IF/FIs (seven through field work and seven indirectly, through external fund evaluations). In nine of these IF/FIs, we found the efficiency to be good (six) or reasonable (three). The remaining five IF/FIs performed poorly, because of high management fee percentages (compared to similar funds), long delays in investments, small fund size and/or poor-quality investments.

Overall, the costs of getting MFA capital to SMEs through the Track 2 channel has been approximately 6.7% per year, which is therefore what investments in SMEs in DGGF countries need to generate to cover the combined IF/FI and Track 2 management costs.[56] Once Track 2 is fully invested, this percentage will be closer to 5%. For a fund-of-funds (i.e. a multi-manager

[55] Due to the commercially sensitive nature of the data, we do not disclose the amounts and percentages.

[56] Investment fund managers may also be eligible to 'carried interest', which is a bonus based on a portfolio's performance, however defined in the fund agreement. We did not consider carry in any of our calculations. The Fund Managers of DGGF's three tracks do not have a similar (or any other individualised) incentive system.

instrument with two layers of costs), 5% is reasonable (compared to similar SME funds), and it is unsurprising that it takes DGGF a few years to reach this point.

The Fund Manager of **Track 3** charges an annual pre-determined lump sum that started at €1.09 million and is annually adjusted for inflation only, to reach €1.16 million in 2019. In the set-up of DGGF, in which the full financial risk of investments is carried by MFA, the choice for a lump sum payment over a payment system that incentivises portfolio growth avoids inappropriate risk taking. However, if the portfolio size disappoints, it also renders the management fee higher than originally estimated, as a proportion of the portfolio size. This has been the case: by the end of 2019, the Track 3 portfolio was only a little over a third of what it was originally meant to be (37%, or €64 million against the original capital allocation of €175 million). This means that, at the end of 2019, the management cost of Track 3 was almost thrice the originally estimated amount, per unit of investment. In 2018, the portfolio was smaller still, though the original estimate was that the €175 million would already have been utilised in full. We note that these costs translate to less than 2% as a proportion of the portfolio as it stands at the end of 2019, which is lower than the management fee proportions of the other two tracks – but the products are of a very different nature, and these percentages are therefore not comparable.

We conclude that DGGF's administrative costs are substantial and must be covered by SMEs if revolvability is to be achieved. However, DGGF is making steady efficiency gains, and is likely to continue to do so in the foreseeable future.

6.3 Some of DGGF's application processes are unnecessarily cumbersome.

The Track 2 process towards an investment agreement is not fully standardised – and it probably could not be, considering the uniqueness of each engagement. However, the contact with the IF/FI is frequent, and IF/FIs find this process cumbersome, but generally not disproportionately so (though complaints about the amount of legal work, compared to what other DFIs require, are common).

For **Track 1** and **3**, it *is* possible to use standardised, transparent, predictable and timely end-to-end financing application processes, which are based on systematically applied and unambiguous criteria that are shared with applicants at the start and do not shift midway through the process. Such processes are an important component of efficiency.

The **Track 1** process for loans and technical assistance could be stronger in each of these respects. Many applicants found the application process drawn-out, opaque, unpredictable and person-dependent – and some companies withdrew their applications as a consequence.[57] Applicants do not have access to an online tracking system (which could also be used to reduce currently lengthy response times on the side of the applicants) and we saw evidence of conflicting messages conveyed in the course of unduly lengthy processes. We also saw evidence of discrepancies between formal and actual eligibility criteria, and between formally stated and actual requirements, with both being either more stringent or less stringent, depending on the criterion or requirement; some requirements appeared and disappeared again, in the course of the process. We did not see evidence of the presence of a rigorous internal tracking system that the Fund Manager could use to monitor and optimise its end-to-end application processes.

The process of **Track 3** is reasonably swift, and only one of the companies we interviewed said it had missed an export opportunity because of the time it took to get the necessary Track 3

[57] The Fund Manager's October 2019 client satisfaction survey summary reports that 6 out of 13 respondents (all successful applicants) mentioned speed or communication as the main issue when asked "what could be improved in the application process". When asked "what went well in the application process", none of the 13 respondents mentioned either speed or communication.

agreement. However, the process is not entirely transparent, and the Fund Manager does not use an online tracker (or equivalent) that allows applicants (and Fund Manager) to check the status of their technical assistance and financial product applications, the steps taken and yet to take, and expected timelines for each of the remaining steps.

6.4 DGGF leverages some of its capital, but to a lesser extent than the Minister claimed, less causal than the word implies, and most of the leveraged capital is not from the private financial sector.

In October 2015, a DGGF-focused Letter to Parliament stated that "every DGGF-euro makes 4.5 private sector euros available".[58] This was incorrect at the time, and was still incorrect at the end of our review period.

Track 1 does leverage the private financial sector, but its leverage effect is modest. At the launch of DGGF, the intention was that Track 1 loans would "always be with co-financing of a Dutch or local bank, and [the Fund Manager] may only exceptionally provide standalone loans if neither is possible".[59] In reality, banks showed little interest in co-financing DGGF clients. By the end of 2019, only a quarter of the loans were co-financed (9 out of 39 loans). Together with leverage generated through partial bank guarantees (14 until the end of 2019), the Track 1 leverage over the review period has been 62% (i.e. per euro invested, banks co-financed 62 cents, or 14% of the claim presented to Parliament).[60]

The direct leverage effect of **Track 2** is considerably higher, but this is not generally with the *commercial* private financial sector.[61] The Fund Manager reported this track's direct effect to be 200-280%, depending on the year, and the results of our sample were broadly aligned with that. However, only the leverage of Track 2's cornerstone investments (which are deliberately risk-taking investments at the start of a new IF/FI funding round, specifically designed to persuade other investors to follow) is largely causal (or 'catalytic'). Half of the 14 IF/FI investments in our sample were not cornerstone investments, and their 'leverage' takes the shape of co-dependent investing, rather than one-directional causal leverage.

However, we did see two other types of leverage effect:

- Track 2 used some of its seed capital and technical assistance to get new or embryonic investment funds ready for a mature close. These modest investments have had large leverage effects, in the sense that these investments funds may not have reached the stage of a mature close without the support of DGGF (often jointly with other stakeholders that provided support to get these investment funds ready for their transition).
- In the case of two investment funds in our sample, we did see a considerable *secondary* causal leverage effect vis-à-vis the private sector: DGGF invested in investment funds, which invested in SMEs and subsequently enticed private banks and equity investors to join. Track 2 does not measure or report on secondary leverage effects, but such effects are likely to occur regularly.

Part of **Track 3** capital is used for bills of exchange, which is directly charged to DGGF capital and does not generate a leverage effect. Track 3 also offers insurance, which implies a 1:3 leverage of DGGF capital as one third of DGGF exposure is deposited at the Ministry of Finance as guarantee. In our sample of seven companies, there was one case where Track 3 leveraged

[58] Government of the Netherlands (1 October 2015) *Mid-Term Review Dutch Good Growth Fund*, page 3.
[59] RVO (2014) *Definitieve offerte Dutch Good Growth Fund (DGGF), onderdeel 1*, page 28.
[60] Our calculations did not consider leverage effects of Track 1's two investments in investment funds, for which we have no data.
[61] Approximately 70% of the leveraged investments is from other DFIs. The remaining 30% is from private investors, but most of these private investors have a developmental rather than a commercial objective.

an equity investment – and the company we visited confirmed that this investment would not have happened without Track 3 involvement.

We conclude that DGGF directly leverages some of its capital. It is largely of a co-dependent rather than causal nature, most of the effect is not with the private financial sector, and the effect is significant but not catalytic. We also note that there may be significant secondary leverage effects, but this is not currently being measured and we base this on evidence from only two investment funds.

6.5 There is synergy within tracks.

Track 1 and **2** have used technical assistance to help start-ups and SMEs develop products, test markets and innovative business concepts, cover working capital, support responsible entrepreneurial practice, and reduce the risk of repayment failure. Track 2 has also used technical assistance and seed capital to help create conducive start-up environments and to help investment funds 'graduate' to Track 2's general investment portfolio. This 'pipeline builder' has not always but often been successful.[62]

For many exports, **Track 3** used a combination of export risk insurance and bills of exchange financing, and this is a form of synergy. Conversely, Track 3 has made little use of its allocation for technical assistance (originally €9 million, later reduced to €2 million, of which only €300,000 had been spent at the end of 2019; the companies we interviewed were unaware of the option).

We conclude that the links between DGGF's technical assistance and seed capital investments, and DGGF's mainstream financial instruments, have generally been clear.[63] We also conclude that the Track 2 *pipeline builder* is new to the DFI sector, and is a useful innovation.

6.6 There is little synergy *across* the tracks, and it is not obvious why these three tracks are part of a single fund.

In 2013, the Minister promised, in a Letter to Parliament, that DGGF would achieve "maximum synergy among the three parts [of DGGF]". DGGF has not operationalised this. The tracks regularly discuss CSR issues, but have little interaction in fields such as knowledge exchange, discussion of problem cases, joint investments, or the use of parallel investments to amplify development effects.

We saw a few missed opportunities to collaborate. Tracks 1 and 2 have both invested in solid waste management in Bangalore, India, for example, and could usefully have collaborated; and Tracks 1 and 2 could also have compared notes on their respective fund-in-fund investments. However, there are not many such opportunities, and systematic investments in cross-learning and collaboration are unlikely to amount to good value for money. The reason is that the three-track design of DGGF is not underpinned by an efficiency-related rationale.

From a synergy point of view, Track 2's fund-of-funds financing has virtually no overlap with the Track 1 and 3's direct engagement with Dutch companies. Track 2's remit is far closer to the one of FMO Massif, another SME-focused DFI that was capitalised by the Government of

[62] Moreover, several IF/FI fund managers have used their DGGF-supported experience in one country or region as they expanded into other countries and regions.

[63] In a few cases in our sample, the technical assistance was effectively a form of subsidy for what was essentially core business development. Another minor disconnect is that Track 1 provided some of its technical assistance to start-up companies that do not intend to subsequently use DGGF's financial product, though the stated aim of this initial support is that it "is always focused on a specific financing need. … The use of technical assistance is and remains complementary to [Track 1's] other instruments". RVO (31 March 2019) *DGGF 1 annual report*, page 51.

the Netherlands. There are differences between Track 2 and FMO Massif,[64] but the two funds operate in the same broad field of fund-of-funds financing. They have invested in some of the same IF/FIs and talk frequently, but the current set-up as two separate funds does not encourage systematically collaboration in order to achieve efficiency gains in, for example, due diligence or monitoring processes.

6.7 Conclusions on efficiency

- **About DGGF's portfolio size and the evolving costs per unit of investment.** The original capital utilisation plans were unrealistic for a new fund that operates in challenging markets, and that is managed by Fund Managers that were all new to elements of DGGF's work. By the end of 2019, DGGF had only utilised half its capital of €700 million, against the original plan of full utilisation by the end of 2017. This makes DGGF a costly fund, per unit of investment, but the management fees are reasonable and the costs are coming down as the portfolio expands. Once DGGF approaches full capital utilisation, costs will be at a level that is comparable with other DFIs and investment funds.
- **About synergies within tracks, across tracks, and with other investors.** Synergies increase efficiency. There is synergy within each of the three tracks. In Track 1 and 2, technical assistance and seed capital supported investments. Track 3 usefully combined export risk insurance and bills of exchange financing. However, there is little synergy across the tracks – also because Track 2 has little in common with Track 1 and 3. In the wider financial sector, DGGF sometimes works in synergy with other investors – mostly other DFIs. However, its leverage effect is smaller than originally envisioned and reported to Parliament. It is also less causal than the word implies: most 'leverage' is really co-dependent financing, and in many cases DGGF is leveraging as much as it is being leveraged. Most of the leveraged capital is not, as was originally envisioned, from the private financial sector.
- **About process efficiency.** For products other than Track 2's equity investments (the efficiency of which is hard to judge though we did not see red flags), it is important that end-to-end application processes are well-engineered, standardised, transparent, predictable and swift, and based on systematically applied and unambiguous criteria that are known to applicants at the start and do not shift midway through the process. The processes of Track 1 could be improved in each of these respects. The Track 3 process is more streamlined, but the Track 3 Fund Manager could do more to keep applicants informed about progress.

[64] In an internal 2016 document, the Fund Manager of Track 2 saw Track 2 as being different from FMO Massif in four ways: (1) for Track 2, there needs to be a 'need for DGGF funding' as a starting point; (2) Track 2 specifically selects 'missing middle' investment funds that focus on relatively small investment sizes; (3) Track 2 consciously supports underserved market segments, including fragile states; and (4) Track 2 has a 'focus on tailor-made solutions'. In June 2020, the Fund Manager's view is that differences 1, 2, and 4 still apply – while Massif has more recently increased its focus on fragile states, and added the target groups of women- and youth-owned entrepreneurs. The Fund Manager also considers its 'graduation' approach (which prepares fund investments by means of a dedicated seed capital facility) to be a key difference.

7. Effectiveness

This section:

- Looks at the DGGF's results on Dutch companies' trade (7.1).
- Reflects on the nature and extent of DGGF's contribution to development results (7.2).
- Assesses the following result areas:
    - DGGF's reach of women- and youth-owned companies, and companies in fragile states (7.3).
    - The DGGF's effects on employment, production capacity and knowledge (7.4-7.6).
    - The proportionality of development effects to the size of investments (7.7).
    - DGGF's reach of low-income countries (7.8)
    - DGGF's effects on CSR (7.9).

We note that this evaluation is formally called an 'endline' evaluation but is, in reality, taking place before the Fund's mid-term point, and that the Fund took time to gain momentum. The findings we report in this section are firm and fully evidence-based, but they only cover the period until the end of 2019. It is therefore too early to assess if, for example, the more recent investments might have better results than the older investments have had.

7.1 DGGF had a modest effect on Dutch companies' trade

Track 1's investment financing has increased Dutch companies' production in DGGF countries. Part of this resulted in increased Dutch trade within and from the Netherlands (e.g. re-exporting flowers from Ethiopia, using intermediate products produced in India as inputs for Dutch export manufacturing). **Track 2** does not aim to increase Dutch companies' trade or export, and there is no evidence of increased trade. For the **Track 3** policies in our sample, effects on trade by Dutch firms were direct and close to the full amount of the exports covered by the contracts.

There was no evidence of increased Dutch companies' trade outside DGGF-facilitated trade (i.e. the type of trade foreseen as a longer-term outcome, in DGGF's Theory of Change).

7.2 DGGF investments and technical assistance do not *cause* development results but make a meaningful *contribution* to these results.

DGGF helps companies to achieve development results through commercial success. Often, these companies require a sequence of financial products and other forms of support to grow into viable SMEs, and DGGF is one of a number of external stakeholders providing support.

When we traced the growth process of a few DGGF-supported companies, we found that DGGF typically supports one or two of a number of moments where finances were needed to enter a new stage of development (e.g. to cover the costs of the initial proposition development, then the prototype, the in-field testing, the piloting, the commercialisation, the expansion, and the diversification). This sequence of stages was longer in more developed financial environments (because financing is available for more stages of enterprise development) and for more innovative products (as they require more product development and testing).

This means that DGGF does not independently *cause* these companies to thrive and grow, but plays a meaningful role in a multi-stakeholder effort to *contribute* to their health and growth.

7.3 Over 80% of the 7,000 DGGF-financed companies in DGGF countries are not in fragile states and/or owned by women and/or youth. Track 2's focused efforts are changing this.

Almost 99% of the DGGF-financed companies are financed through **Track 2**,[65] and this is the only track for which MFA set targets for women- and youth-owned companies, and companies in fragile states. The Fund Manager set its own and more ambitious targets (see Table 7).

Table 7: Track 2 reaching companies owned by women, owned by youth, or situated in fragile states, as percentage of investment portfolio size

	Owned by women	Owned by youth	In fragile states
MFA targets	15%	15%	15%
Fund Manager targets	25%	25%	15%
Achievements as per end of 2019	21%	21%	20%

Note: Reaching a young female entrepreneur in a fragile state counts in each of the three columns.

The Fund Manager has exceeded each of the MFA targets and one of its three self-set targets. The more ambitious targets for youth- and women-owned may soon be reached as well, as there has been rapid progress in the last few years – by the end of 2019, over a third (34%) of the investments of the 2018-contracted investment funds reached women-owned companies, for example.[66]

This progress is the result of a deliberate and multipronged effort,[67] and there are further efforts to build on the results achieved to date. Efforts to increase the women-owned companies' engagement include: (i) substantial technical assistance (the most significant of which is a US$1 million allocation for one gender inclusion investment fund's technical assistance); (ii) a July 2019 study that assessed the extent to which DGGF was serving the financial needs of women-owned businesses in emerging markets;[68] and (iii) internal training on 'gender lens investing' that is meant to result in a 'gender lens investment strategy'.[69] Efforts to increase the engagement with youth-owned companies started, in November 2018, with a 'DGGF4youth' framework, which included €40 million investment capital and €3 million for seed capital and technical assistance. Efforts then evolved into a focus on incubators, accelerators, early-stage finance initiatives and venture capital funds in countries that are prone to irregular outward migration to Europe (a focus that was triggered by the Minister's

[65] Track 2 co-finances investments in 6,819 out of DGGF's total of 6,895 companies from or operational in DGGF countries. There are 39 Track 1 companies and the 27 Dutch companies that are exporting to DGGF countries have a total of 37 importers in DGGF countries.
[66] This percentage is not entirely comparable to the 25% target because the Fund Manager changed its definition of 'woman-owned company' in 2019. Note that the percentage of women-owned companies is particularly high in block 3, which provides loans rather than equity capital, and which focuses on smaller, slow-growing companies.
[67] This is an example of the Fund Manager calibrating its portfolio. This is possible because of the Track 2's set-up of five investment blocks and a Seed Capital and Business Development facility (see Table 2 and the text above it). The other two tracks to not have a comparable system of calibration.
[68] Holzman, C. and Roberts-Robbin, K. (July 2019) *Serving the financial needs of women-owned businesses in emerging markets*, Enabling Outcomes and Enclude.
[69] Triple Jump and PwC (16 December 2019) *DGGF financing local SMEs; year plan 2020*, page 8.

assumption that success in this field would reduce irregular migration, as explained in section 4, on Relevance).

Track 1 and **3** do not specifically target Dutch companies that work with women- or youth-owned companies in DGGF countries, or with companies in fragile states. Their Fund Managers state that the largely demand-driven nature of their instruments does not equip them to do so. This is not a strong argument, as Fund Managers have not exhausted opportunities to invest in *creating* relevant demand, either directly from Dutch firms working with target entrepreneurs in DGGF countries or by making target entrepreneurs aware of the opportunity to approach relevant Dutch companies with propositions for potentially DGGF-financed collaboration.

Over the review period, Track 1 achieved no notable results for any of these target groups. Track 3 did not reach women- or youth-owned companies in DGGF countries, but over a quarter (26%) of the exports it facilitated were to companies in fragile states. The explanation is that, as agreed with MFA, exports are only eligible for DGGF support if the Track 3 Fund Manager is unable to enable these exports through the EKV facility. This means that Track 3 'gets the leftovers', and these leftovers are often particularly high-risk exports to fragile states.

We conclude that the initial MFA targets were modest, and limited to Track 2; and that only Track 2 has developed its investment portfolio with these target groups in mind. This track has already exceeded MFA's targets, and is on a deliberate upwards trajectory. More than a quarter of Track 3's portfolio of exports was to importers in fragile states.

7.4 DGGF facilitated direct job creation at far lower levels than originally estimated.

Employment creation is one of the DGGF's three key development outcomes. Its theory of change foresees two effects.

- Direct effects in the first five years: DGGF's financing enables companies to create jobs.
- Indirect effects thereafter: DGGF's success draws companies and the private financial sector towards making DGGF-type investments.

To date, DGGF has only measured the DGGF's direct contribution to job creation, and we have seen no evidence of the longer-term, indirect effect. This sub-section therefore focuses on the direct effects only. Comparisons across the tracks are difficult, as they do not use shared terminology, definitions, measurements and timeframes. Table 8 illustrates this, and shows that DGGF is not close to achieving its original targets and ambitions. These targets and ambitions were defined by the Fund Managers and accepted by MFA, but did not carry weight in the tendering process and were not presented to Parliament as formal targets.

After a one-year delay, **Track 1** achieved 17% of its stated ambition: 2,351 jobs had been created by the end of 2019, against the Fund Manager's ambition of 13,800 jobs by the end of 2018.[70] This percentage is likely to increase, as investments were often delayed against plans at the time of the DGGF agreement. However, it will remain far below the *ex ante* estimate, and the more recent stated expectation of creating 57,000 jobs once the total available capital of €230 million has been invested[71] is also unrealistic and reflects the Fund Manager's ongoing optimism bias. In addition to the delays of individual company investments, the disappointing results against target are caused by slow portfolio growth, partial loan utilisation (as companies use their own resources first or Fund Managers delay or decline loan disbursements due to unfulfilled conditions), and the optimistic forecasts by loan applicants.

[70] Neither figure includes jobs that are created within the supply chain, which the Fund Manager estimates to be 17,466, against a target of 21,604. We were unable to verify this figure.
[71] RVO (draft, 2020) DGGF1 and DTIF1, page 3.

This exaggeration on the side of the applicants may also explain the discrepancy between the scheduled versus the actual jobs filled by women (half versus a third).

The Fund Manager of **Track 2** initially aimed to contribute to the creation of 117,000 jobs by 2029 (i.e. 15 years after the Fund's start). This was an unrealistic target, and the average cost of a created job would have been €1,500 (excluding revolvability),[72] which is well below what other SME-focused DFIs typically claim.[73] In 2016, the Fund Manager concluded that "the missing middle target market consists of smaller, more early stage SMEs with [fewer] employees which, in order to be brought forward more sustainably, require a more long term capital intensive engagement".[74] This realisation caused the Fund Manager to revise its estimate from 117,000 to 41,000 jobs by 2029, using 87% more capital (€327.5 instead of €175 million, or a costs-per-job change from €1,500 to €8,000, excluding revolvability).

Track 2 is not on track to achieve this lower target either, though it is close to the predictions of the Fund Manager's job creation model that suggests a mushroom effect towards the end of Track 2's 15-year timeline. If proven true, this would bring the actual number of jobs close to the lower target of 41,000 by 2029, but the model seems flawed and, again, subject to an optimism bias, as it assumes that employment is created as scheduled and increases over time, while our sample included companies that lagged behind, as well as companies in which employment peaked and then declined again.

For now, an investment of €188 million has directly facilitated the creation of 6,329 jobs by the end of 2019 (or 89% of the Fund Manager's lower-end model prediction of 7,127). The number of jobs created will rise, and possibly even in multiples, but it is unlikely to reach the lower target of 41,000 jobs.[75]

The Fund Manager of **Track 3** reports *ex ante projections* of job creation only. Though the Letter of Engagement required the Fund Manager to monitor the effect of every export a year after it took place, a modest effort to gain *ex post* insights in development relevance only started in 2017, and no useful feedback was received until the end of 2019. The result is that the Track 3 employment figures do not have much meaning, so we were reliant on our sample of seven companies. In six of them employment creation was significantly below the *ex ante* estimation, and in one of them it was significantly higher. Reasons for the discrepancy between predictions and *ex post* actuals are an exaggeration of original estimates on the side of the exporter, delays in the operationalisation of the capital goods, and wider company failures on the side of the importer.

We conclude that DGGF has so far only facilitated the creation of a fraction (less than 8%) of the originally envisioned number of jobs, and that Track 2 outperforms Track 1 in terms of costs-per-job-to-date (excluding revolvability; the discrepancy is larger when incorporating a *pro rata* correction in the figures for Track 1).[76] The additional jobs that will be created by the current portfolio and by new investments will not bring DGGF much closer to the original targets for 2029, unless future investments create significantly more jobs than the investments to date have done.

[72] Note that full revolvability would mean that, in the very long term, the costs-per-job approach zero. For this reason, it is not possible to compare a revolving fund's costs-per-job with the costs-per-job in a grant-based system such as the Dutch PSI.
[73] We benchmarked against three other DFIs, which claim to facilitate job creation at the cost of €5,000-€12,500 per job. Note that DFIs generally define 'job creation' more liberally than DGGF does (i.e. some DFIs ignore the *pro rata* requirement and/or add a percentage of jobs on account of assumed jobs that were created indirectly). The discrepancy between the original Track 2 target and these DFIs' realities is therefore larger than the figures suggest. As MFA was aware of the high level of uncertainty in job creation predictions, the tender panel did not include these predictions in its scoring grid.
[74] Triple Jump and PwC (29 March 2016) *DGGF financing local SMEs; 2016 business plan*, page 24.
[75] This figure does not include jobs created or livelihoods strengthened in the wider supply chain, which may be considerable but is not measured.
[76] No comparison is possible for Track 3, as the required data for such a comparison are missing.

A comparison with results claims made in annual reports of other DFIs suggests that DGGF performed poorly, in the review period, but such comparisons are not sound, for three reasons:

- The measurement principles may be different.
- Data presented by other DFIs may not have been subject to the same level of data scrutiny.
- DGGF is a young fund, and its results should not yet be compared with more mature DFIs.

With the caveat that comparisons with other DFIs are not possible, we conclude that the costs-per-job (excluding revolvability) are high, and often equate to decades of the salary generated by these jobs. We have seen no DGGF documentation that reflects on the proportionality between the costs to create jobs and the salaries that are paid to the jobholders.

Table 8: Job creation, plans and actuals

	Job creation ambitions, targets and estimates (terms used by Fund Managers of Tracks 1, 2 and 3 respectively)	Job creation facilitated by the end 2019
Track 1	Ambition: **13,800 jobs created by the end of 2018**, divided 1:1 over women and men. This is Track 1's earliest stated ambition in this field, expressed in November 2016. These jobs were to be realised by the end of 2018, with the investment portfolio as it stood at the end of 2017, on the assumption that "most employment will be realised within a year after the loan".[77] This figure excludes employment created via two investments funds.	**2,351 jobs created**, or 17% of the ambition, divided 1:2 over women and men. Our sample confirms that these figures are realistic. This figure is not *pro rata*, which means that it represents the jobs facilitated by the investment that DGGF *made*, as well as the investment that DGGF *leveraged*. In addition to these 2,351 jobs: ▪ Track 1 co-invested in two investment funds, which created 41 jobs (not *pro rata*). ▪ The Fund Manager of Track 1 states that Track 1 improved the livelihoods of 17,400 supplying farmers and their workers, who are part of the supply chain of DGGF-supported agro-companies. We were unable to verify this figure.
Track 2	• Target in 2014: **117,000 jobs created by 2029**, with a €175 million fund. • Target in 2016: **41,000 jobs created by 2029**, with a €327.5 million fund.	**6,392 jobs created**, or 5% of the original and 15% of the revised target, after 5½ years (out of a time horizon of 15 years). Our sample confirms that these figures are realistic.

[77] RVO (29 November 2016) *Offerte 2017 Ministerie van Buitenlandse Zaken*, page 5.

	Targets and actuals are not disaggregated over women and men.	At IF/FI level, this figure is *pro rata*, which means that it represents the jobs facilitated by the investment that DGGF *made*, but not the investment that DGGF *leveraged*. However, at SME level, this figure is *not pro rata*, and it includes all jobs created, also in case companies used multiple financial products to finance their growth.
Track 3	Estimate: **1,619 jobs created**, without indication of timelines but assumedly soon after the imported capital goods are installed. Targets are not disaggregated over women and men.	*Ex post* figures are only available for 13 firms (797 jobs, as reported by the companies themselves). In our sample of 7 agreements, actual job creation is lower than anticipated job creation (56% of the estimate achieved in 7 companies at the time of the visits in early 2020).
Total	Earliest ambitions, targets and estimates: **more than 130,000 jobs created**, with a timeline until the end of 2018 (13,800, Track 1), the end of 2029 (117,000, Track 2) or without indication of timeline (1,619, Track 3).	**Less than 10,000 jobs created** by the end of 2019.

7.5 Limited data confirm that DGGF facilitated an increase in production capacity, often to the extent estimated *ex ante*.

One of the three key outcomes of the DGGF Theory of Change is an increase in production capacity. As with employment creation, it has a direct component (a DGGF-financed product or service enables a company to increase its production capacity) and, in the longer term, an indirect component (DGGF's success inspires companies and unsubsidised financial products to invest commercially). There has been no evidence of the longer-term, indirect effect, so this sub-section focuses on the direct effects only.

Different tracks measure increases in production capacity differently so cross-track comparisons are not possible. Moreover, proxy indicators and estimates are both very rough, so comparisons with other DFIs are impossible).

- As part of its M&E development process, **Track 1** designed six 'production capacity' elements that would jointly provide nuanced insight in the effects of its investments, but operationalised only one of them: certifications. Track 1 achieved only 6% of its expected results (18 certificates by the end of 2019, versus the expectation of 283 certificates by the end of 2018). Because, in isolation, certification is a highly incomplete proxy indicator for increases in production capacity, this underachievement does not carry meaning.

  We therefore looked at our sample of Track 1 investments and found that 9 out of 10 Track 1-supported companies had increased their production capacity according to expectations (though initial delays were common).[78] The remaining case has not yet succeeded to increase its production, but it had not failed either – so the success might merely be delayed. Moreover, in three cases, the direct investment catalysed a process of growth that went beyond the direct single-stage expansion directly financed by the Track 1 loan.

- The **Track 2**'s Fund Manager uses increased revenues as its sole proxy indicator for production capacity. This is imperfect but more meaningful than the number of certificates in Track 1.

  If the Fund Manager's estimate of 18% revenue growth is correct, then Track 2 is meeting its current goal of 17%, but not its original Business Plan's goal of 20%. Considering the roughness of the proxy indicator, these percentages are all in the same ballpark. We were unable to check if the estimate is correct. However, we do note that the companies in our sample frequently lagged behind their original production expansion plans, so if the 18% revenue growth is correct than the sum total revenue growth at the end of the expansion process will significantly exceed both the MFA and Fund Manager's targets.

- By early 2020, the Fund Manager of **Track 3** had received data on production capacity increases resulting from 13 (out of 46) export transactions (no results in three cases, unspecified results in three cases, and specified – but unverified – results that ranged from 10% to 300% in seven cases). Within our own sample of seven we saw a similar mix of failure and success.

We conclude that DGGF products increase production capacity, often as scheduled and with both positive and negative outliers.

7.6 Knowledge transfer to companies in DGGF countries is often successful.

In addition to facilitating employment creation and SME production capacity gains, DGGF aims to facilitate the transfer of knowledge to companies in DGGF countries. The theory of change distinguishes between DGGF's direct role in the medium term (2^+ years), and its indirect, inspirational role in the longer term (5^+ years). Again, we did not see evidence of these longer-term, indirect effects, and DGGF does not attempt to capture such effects, so this sub-section covers the direct effects only.

The methods of measuring knowledge transfer are insufficiently robust to allow for cross-track comparisons or comparisons with other DFIs.

Some of this knowledge transfer takes the shape of training activities, and this is the only type that **Track 1** and **3** report on. Their Fund Managers concluded that companies generally (but not always) receive training on how to use of the capital goods they invest in, and companies in turn train their staff and their supply chain partners. Our sample confirmed this to be true.

On-the-job training on issues directly related to the volume and quality of production is likely to be absorbed and utilised and, if it is not, it is easy to identify shortcomings and to take corrective action. The flower cutters we met knew how to cut flowers. The dairy farmers we visited had absorbed the training about the factory's milk quality requirements.

However, for forms of knowledge absorption and utilisation that are more complex, or that are less noticeably relevant, training is a relatively ineffective means of transferring knowledge (compared to, say, coaching, experiential learning, shadowing, paired work or tailor-made technical advice – all depending on the nature of the knowledge). Dairy farmers had followed up on their learning in relation to milk quality and freshness, for example, but not on training received in relation to animal wellbeing. We visited farmers with cows that are rarely or

[78] Excluding three modest pre-loan technical assistance investments, all of which showed results at the time of our visit that were lower than the original estimates.

indeed *never* unchained from their feeding trough, and don't have space to walk. Within factories, health and safety training was typically provided as part of the induction process, but regular drills and prioritisation were less common, though they are at least as important, and safety standards will gradually slip in absence of either. We interviewed people who had been trained on fire safety but could not replicate fire safety protocol as their one-time induction to the issue had not stuck. On the day of our visit to a company in Ethiopia, a worker lost two of her fingers in a cutting machine – something regular drills could have avoided.

We therefore find that DGGF's focus on training, in its approach and its reporting, is disproportionate to its usefulness. However, Tracks 1 and 2 does use other knowledge transfer mechanisms as well. In **Track 1**, some of the training includes experiential components. Moreover, Dutch companies use DGGF's technical assistance to develop new products with high knowledge contents (such as an energy-efficient injera cooker in Ethiopia), or to combine Dutch and local expertise to develop appropriate technology (such as in solid waste systems and processes in India). **Track 2** also provides IF/FIs with funding to provide technical assistance to their investees – a free or heavily subsidised facility that is often used for the development of skills and competencies. Independently of DGGF funded technical assistance, DGGF-supported IF/FIs coach and nurture their investees, mostly in fields that are of direct commercial interest. The financial incentives to do this are particularly strong if IF/FIs receive financial rewards for commercial success, and the support is therefore stronger in the case of equity investments than in the case of loans.

Track 2 engages in three other forms of knowledge transfer:

- The Fund Manager invests in the development of the IF/FIs it partners with – both prior to and during the partnership. For this, the Fund Manager uses a combination of technical assistance, regular dialogue, and training. Here too, the training component is disproportionate and, in a few cases, training was provided as the 'solution' for problems that were not caused by a lack of knowledge but by a lack of genuine interest by IF/FIs. The Fund Manager also uses coaching and iterative support to help IF/FIs develop key policies and systems, and feedback from the IF/FIs we visited was generally very positive.
- Especially in more recent years, the Track 2 Fund Manager supports incubators and accelerators which, by their nature, invest heavily in the skills and competencies of the owners of the start-up companies they work with.
- Track 2 invests in knowledge sharing within the wider financial sector. These investments are not part of the scope of this evaluation (though we revisit this briefly, in the sub-section on demonstration effects, in section 9 on sustainability).

We were unable to assess the Value for Money of Track 2's knowledge transfer and company development efforts, because Track 2 has an unambitious approach to monitoring this part of its work (i.e. post-training satisfaction surveys, which say nothing about the actual utilisation of knowledge; and company success, without any attempt to isolate the role of technical assistance in that success). However, the portfolio of non-financial support instruments is well-designed, apart from the overreliance of training and unambitious M&E. Among the IF/FIs we reviewed, not all technical assistance fully achieved its targets and IF/FIs occasionally preferred other DFIs' technical support on account of the speed of delivery or quality; but technical assistance was generally appreciated and successfully followed up on.

We conclude that the direct knowledge transfer to IF/FIs and to companies in DGGF countries is often successful. However, we also conclude that the DGGF is overly focused on training, in its efforts and its reporting, and that the monitoring of the results of training and technical assistance is insufficiently ambitious. We did not see evidence of the theory of change's longer-term outcome of DGGF inspiring stakeholders outside of the Fund's immediate network to transfer knowledge to companies in DGGF countries.

7.7 Effects on employment, production capacity and knowledge are not proportional to investment size. This is not necessarily a problem.

A November 2012 Letter to Parliament says that "a larger investment or export transaction is expected to have a larger development effect."[79] As flagged in section 4 of this report, DGGF did not operationalise this principle: there are no targets or red lines per unit of investment for results in any of the three target areas we just explored, and we did not see a clear pattern of higher levels of investment leading to stronger development effects. Because the effects on knowledge transfer and production capacity have not been adequately quantified, we could only compare investment size with *ex ante* employment predictions, and found that the predicted costs per job (excluding revolvability) ranged from less than €10,000 to more than €250,000, without a clear pattern that correlates employment to investment size.

We saw a few relatively sizeable (>€3 million) investments that hardly had any development benefits at all. As long as such investments do not achieve the *opposite* of the DGGF's ultimate aim of poverty reduction and inclusive development (see the section on impact), this is not necessarily problematic, provided that these investments bolster the revolvability of the fund by generating high returns. With no exits from equity investments, and high uncertainties in the assessment of an investment's Net Asset Value (NAV) in countries with underdeveloped financial sectors, it is too early to confirm that this is the case.

7.8 The Track 2 Fund Manager has reason for not meeting the target that more than half of its investments were to be situated in low-income countries.

For DGGF as a whole, 25% of the investments were investments in or exports to low-income countries.[80] Track 2 was the only track with a relevant target, which it did not achieve: the investment portfolio situated in low-income countries was a third, against the target of 'more than half'.

This was the only MFA-set target that Track 2 has not achieved. The Fund Manager stated that the target conflicts with other goals and, especially after the introduction of a list of 'focus countries' (which collectively attracted 43% of DGGF's investments), was not seen as a priority. Given the complex set of requirements, with tension across many of them, it is reasonable to deprioritise one that was only mentioned in a single Letter to Parliament,[81] and that was implicitly superseded by the subsequent emphasis on a group of 'focus countries' that has limited overlap with the group of low income countries.

7.9 DGGF is actively engaged with the issue of CSR but there is a disconnect between CSR paperwork and operational realities.

Dutch companies abroad are expected to act responsibly (behaviour that is called 'IMVO', in Dutch; this report refers to IMVO as 'CSR', which is a proxy acronym – see Box 3). Specifically, they are expected to follow the OECD Guidelines for Multinational Enterprises (link), the IFC's Environmental and Social Performance Standards (link), and the UN Guiding Principles of Business and Human Rights (link). This expectation also applies to IF/FIs that DGGF invests in, and to the investees of these IF/FIs. In addition, Track 3 is expected to be compliant to the OECD Common Approaches for Officially Supported Export Credit and Environmental and Social Due Diligence (link).

[79] Letter to Parliament (6 November 2012) *Hulp, handel en investeringen; lijst van vragen en antwoorden*, pages 27-28.
[80] Per track and using the 2019 World Bank list of low-income countries, the percentages were 23% (Track 1), 21% (Track 2) and 49% (Track 3).
[81] MFA (6 November 2012) *Hulp, handel en investeringen; lijst van vragen en antwoorden*, page 42.

Unless red lines are crossed (see later), DGGF's CSR approach is one of constructive engagement and gradual progress, not one of hard rules and sanctions. The engagement starts well before agreements are signed, and several IF/FIs and SMEs (especially in **Track 1** and **2**) reported that they either developed an CSR policy from scratch, or strengthened their pre-existing CSR policy, as a direct consequence of their engagement with DGGF.

Box 3: Note on terminology and evidence used

Dutch companies abroad, and Dutch private sector support instruments in DGGF countries, are expected to follow the Dutch government's rules and regulations around 'internationaal maatschappelijk verantwoord ondernemen' (IMVO).

In English-language **Track 1** and **3** documentation the Dutch acronym IMVO is translated as (international) corporate social responsibility (I)CSR. **Track 2** documentation refers to (I)CSR as well, but more commonly refers to 'environmental, social and governance' criteria (ESG). For investors and the wider financial sector, CSR carries a 'philanthropic' connotation, while ESG is part of an investor's risk management. In this report, we use the acronym CSR, but this is a proxy acronym, and in our analysis, it includes the issue of governance.

For each of DGGF's three tracks, companies present their CSR results in an overly positive manner (i.e. we saw evidence of staging during DGGF visits, and of communication with a positive bias). Therefore, this section is mostly based on direct observations during our site visits in India, Ethiopia and Kenya, and on Track 2 external fund evaluations.

During our country visits, we saw evidence of outreach activities, such as the installation of water points, support to and empowerment of people with disabilities, local recruitments and local tree-planting. We also saw DGGF-supported improvements in workplace safety, and there was evidence that major accidents are reported to DGGF.

The governance part of CSR is strong, especially in **Track 2**, both in the pre-agreement assessment and in subsequent stages. This benefits the investment companies and their investees. It also benefits DGGF itself, because funds, and equity funds in particular, have an obvious self-interest to ensure good governance that includes respect for minority investors (which DGGF always is). In this field, the Fund Manager actively supports the IF/FIs, and IF/FIs actively support their investees (though, because of this obvious self-interest, more so in the case of equity investments than in the case of loans). We saw ample evidence of IF/FIs and companies valuing and utilising the support provided.

In most cases, the 'environmental' part of DGGF's work is also relatively thorough, especially in the pre-agreement stage, when assessments are conducted, and recommendations are made that sometimes include minor issues such as the choice of light bulbs in small office spaces. However, following up on DGGF's recommendations is largely at the discretion of the funds and companies, and they commonly neglect to do so. This is because some recommendations are trivial and also because, for smaller companies in particular, DGGF's CSR work comes with documentation overload, reducing the companies' sense of ownership of CSR issues ("Has the team read every line? No. Have we signed that we will adhere to it? Yes."). Moreover, two of the thematic evaluations came across obvious environmental risks that had not been picked up by DGGF, and DGGF turned a blind eye to a few investments with high environmental footprints (such as the ones that require intercontinental airfreighting of flowers and the production of single-use plastic production in countries without meaningful recycling system – see point 3 in section 5 on policy coherence). This suggests that rigour is applied selectively.

The labour part of CSR is generally well developed at paper policy level, but not always in practice. The workers we spoke to were generally unable to explain the basics of their company's complaint procedure, for example, and their awareness of their rights was low. Basic health and safety tools such as appropriate general and personal protective equipment were not always available (but there were exceptions - see Box 4). Where such equipment was available, it was not always maintained or used, and awareness of and adherence to health and safety principles was insufficient – sometimes at grave cost (we visited a company where a worker had died in a preventable accident).

Box 4: DGGF-supported solid waste processing facilities are safer than comparator facilities

We visited six solid waste processing facilities in Bangalore: two with a direct link to DGGF (one was closed),[82] two with a supply chain link to a DGGF-supported company, and two with no DGGF link.

The facilities with a direct link to DGGF did not use child labour. General and personal protection equipment was in place, used, and adequate (e.g. safe equipment, fire extinguishers, sturdy shoes, gloves, mouth masks). Salaries were regular and predictable.

The facilities with a supply chain link to a DGGF-supported company did not use child labour, and some protection equipment was in place and used. Workers were mostly (migrant) day labourers, and their salaries were therefore irregular and unpredictable.

The facilities without a link to DGGF used child labour, and basic personal protection equipment was missing. We did not interview workers and do not know the nature of their engagement or their salaries.

Our sample included companies that pay salaries that are a third of the 'living wage' (though they still outperformed similar companies – see Table 9). Paying living wages is an important part of CSR,[83] and is mentioned in *A world to gain*,[84] but this is only monitored in Track 1 (leading to the conclusion that, at the end of 2019, only half the companies in Track 1 pay living wages or more).[85] In Ethiopia, living wage violations are particularly common, and salaries paid by DGGF-supported companies in all three tracks keep households well below the World Bank's extreme poverty line. During interviews with Ethiopian workers, salary levels were a recurrent theme ("it is not enough to cover even just our food").

Table 9: Comparison between a flower farm in Ethiopia that used DGGF financing, and its neighbour

Flower farm that used DGGF financing	Neighbouring flower farm that did not use DGGF financing
The most senior manager is an Ethiopian man. A Dutch flower farmer passes by one day per week, for quality assurance.	The most senior manager is an Indian man.

[82] A visit to a Track 2-supported plant was announced and in operation at the time of the visit. A visit to a Track 1-supported plant was unannounced (to avoid staging) and turned out to be closed at the time of the visit, because a worker had passed away the day before (not a work casualty).
[83] DGGF uses OECD guidelines on the issue of living wages to develop its policies. For Track 1, for example, the policy says that companies that the track invests in "shall respect the right [of] personnel to a living wage. … Wages shall be sufficient to meet the basic needs of personnel and to provide some discretionary income." DGGF (undated) *Summary ICSR policy DGGF Track 1: Financing Dutch SME investing in emerging markets and developing countries*, section 2.2.1.
[84] "With the further implementation of the ILO's Decent Work Agenda, we will work to achieve a living wage for everyone who works…" Government of the Netherlands (April 2013) *A World to Gain; a new agenda for aid, trade and investment*, page 45, link.
[85] The Fund Manager says that the other companies have "committed to living wages but [are] not paying them yet". See RVO (undated) *DTIF1 - DGGF1 Jaarrapportage 2019 final concept*, section 1.3.

There are female senior supervisors.	There are no female senior supervisors.
Salaries start at 1,665 birr per month, excluding a modest attendance premium and performance bonus, against the Ethiopian living wage of 5,100 birr. Women and men earn the same for the same level of job.	Salaries start at 40 birr per day for women, and at 50 birr per day for men.
At junior levels, work is divided along gender lines: women do the harvesting and sorting, and men work in spraying, packaging, construction and irrigation.	Same
The farm employs people with disabilities (two at the time of our visit, out of 400 staff; 35 in the history of the farm).	The farm does not employ people with disabilities.
Contracts are generally permanent and salary increases over time.	Same
There is adequate attention to health and safety.	We were unable to verify attention to health and safety.

We conclude that DGGF gives the issue of CSR appropriate priority in its pre-agreement assessments and paper-based monitoring, and that IF/FIs and SMEs have often introduced or strengthened their CSR policies as a direct consequence of their engagement with DGGF. However, there is a disconnect between CSR paperwork and operational realities. Our sample included companies with strong CSR performance, but also companies that had not operationalised DGGF's voluminous CSR guidance. Care for workers is often insufficient. DGGF could deepen its awareness of the CSR realities within DGGF-supported companies in DGGF countries. The Fund makes relatively few company visits, and the visits that do take place are always pre-arranged (i.e. no spot checks), and subject to staging.

7.10 Conclusions on effectiveness

DGGF aims to create longer-term, indirect development results by inspiring companies and unsubsidised financial products to invest in SMEs in DGGF countries. However, because DGGF does not capture these effects, and we saw no evidence of them within our sample, these conclusions are about DGGF's direct effects only.

- **Direct results.**
    - By the end of 2019, DGGF had made a modest direct contribution to Dutch companies' **exports** to and **investments** in DGGF countries.
    - These companies, and the companies served by Track 2, directly contributed to the creation of almost 10,000 **jobs** by the end of 2019, against original estimates of over 130,000 jobs by the end of 2029.
    - These jobs were created in 7,000 companies in DGGF countries. DGGF met MFA's modest targets for reaching **women-owned companies, youth-owned companies, and companies in fragile stages** (15% each). This was because of

the efforts within Track 2 (for all groups) and Track 3 (for exports to fragile states).

  - DGGF-financed investments typically led to increases in **production capacity.**
  - DGGF's investments and technical assistance also often directly facilitated **knowledge transfer**. There is an over-reliance on training, in the Fund's approach and reporting. At the same time, there is insufficiently meaningful monitoring the effectiveness of its technical assistance.

- DGGF did not follow up on the Minister's commitment to a rough **proportionality between investment size and these direct development effects.** This is acceptable if investments with little development relevance benefit the Fund's revolvability. (It is too early to confirm that this is the case.)
- A quarter of the investments were made in or exported to **low-income countries**. Track 2 was the only track with an actual target – more than 50% – and achieved a third (33%). In part, this underachievement is the consequence of other, more recent priorities taking precedence.
- DGGF actively engages with **CSR issues**, and helped many of the SMEs and IF/FIs it works with introduce or strengthen CSR policies. However, there is a disconnect between the documentation and operational realities. We found that DGGF was insufficiently aware of health and safety issues and that the Track 1 Fund Manager is the only one tracking progress on companies paying their staff at least the living wage. There were mixed results on the environmental aspects of CSR: there are investments with significant environmental benefits, a few environmentally risky ones, and a few with a considerable environmental footprint. DGGF's work on governance issues was successful and widely appreciated.

8. Impact

This section covers the types of impact that are presented in Letters to Parliament and the DGGF Theory of Change:

- DGGF's contribution to Dutch SMEs' performance (8.1).
- The Fund's contribution to "sustainable and inclusive economic growth and poverty reduction in DGGF countries" (8.2 and 8.3).[86]

We also look at the way DGGF mitigates against negative side effects (8.4).

This part of our assessment is based on case studies rather than aggregated data. The reason is that DGGF does not have metrics that provide insight into the inclusiveness or exclusiveness of the results of its investments, or of these investments' effects on poverty reduction, or their side effects.

8.1 DGGF contributed to the performance of the Dutch companies it worked with, but not to the performance of the wider Dutch SME sector.

The benefits for the Dutch companies that DGGF successfully worked with are described in section 7, on Effectiveness. There was no evidence of increased interest in investing in or exporting to DGGF countries interest by the wider Dutch SME sector, or changes in Dutch banks' lending policies to encourage such investments or exports.

8.2 DGGF made investments that contributed to sustainable and inclusive economic growth and poverty reduction, or that have the potential to do so in the near future.

DGGF did not measure its development results beyond the metrics of jobs, productivity and knowledge transfer. On the basis of the thematic evaluations and our sample, we conclude that DGGF facilitated investments that helped reduce poverty in four distinct ways:

- By creating jobs in sectors that benefit people who often live below the poverty line, such as landless rural workers and workers in the informal solid waste processing sector (though, as mentioned, DGGF investees do not always pay living wages).
- By strengthening people's livelihoods, such as by supporting rural shopkeepers to expand their product range or by linking poor fishing communities to lucrative markets. In one case, a Track 3-facilitated investment in milk collection equipment enabled a dairy company to reduce its dependency on a few large-scale farmers, and to incorporate more remote, smaller-scale dairy farmers into its supply chain.
- By reducing income variability and shocks (which has the effect of smoothing consumption and thereby reducing distress sales and negative coping behaviour), through micro-insurance.
- By increasing the efficiency and predictability of agricultural supply chains, and by optimising the use of inputs, which leads to stronger livelihoods of small-scale farmers (who, as a result of the investments, face lower price volatility and lower input costs, access more secure markets, produce higher quality or quantity of agricultural products, or fetch higher crop prices).

[86] This quotation is from the impact level of the DGGF Theory of Change. The Minister's foundational Letter to Parliament defines inclusive growth as "economic growth [that] provides more equal access to wealth across all parts of society". MFA (30 September 2013) *Ondernemen voor ontwikkeling: investeren in duurzame en inclusieve groei*, page 1.

Such investments contributed to growth that is sustainable (as these investments are commercially viable, see section 9 on Sustainability) as well as inclusive, as these investments benefit – and often specifically focus on – people and communities at the base of the income pyramid. One investment within our sample also had a specific focus on a particularly disadvantaged group (or 'vulnerable' group, as DGGF calls it): a last mile delivery company in India that employs only deaf men to deliver the packages.

DGGF investments had non-economic benefits as well. A number of investments used ICT solutions to make a wider range of consumer goods and government services accessible to poor and remote communities, or to realise supply chain efficiency gains – and in the process they reduced the urban-rural digital divide, which opens the door to a host of other development benefits.[87] (See also Box 5, for two examples of DGGF-supported agro-tech companies.) Other investments had health benefits, by bringing eye care to rural regions, raising mental health awareness among ordinary Kenyans, or creating seamless connections between health insurers and health providers (see Box 6). One investment increased the availability of affordable drinking water in Ghana.

Box 5: The next Green Revolution may be led by agro-tech companies

Ever since India adopted high yielding crop varieties, in the late 1960s, the use of water, fertilisers and pesticides lowered groundwater levels and caused soil pollution, salinization and erosion, and resistance among pests and weeds. Together, these side effects negated some of the results of the Green Revolution, and they added challenges to India's current and future rural growth. Climate change is making these challenges harder and threats graver.

A DGGF investee uses in-field sensors that link up with farmer smartphones to give real-time information about a particular field's crop, soil conditions and moisture levels. These hyperlocal measurements will help farmers optimise their water and fertiliser usage. Another DGGF investee is conducting final tests on a robot that will drive around small cotton farms with an eye and logarithms that enable it to spray on weeds and diseased cotton plants, while leaving healthy ones undisturbed. These 'see & spray' logarithms for other crops will follow, and so will additional features such as precision-sowing.

It is not at all certain that these companies will survive beyond their start-up phase, but if they do then these sensors and robots may elevate small farmers' precision farming in India (and possibly elsewhere) to a new level. Their contribution to agriculture could cause a step change in the preservation of water and the reduction in the use of polluting chemicals.

Inclusive growth is above the accountability threshold of Fund Managers, and they have no tangible incentives to pursue it. Nonetheless, Fund Managers *like* investments that contribute to such growth. **Track 1** and **3** are largely demand-driven, but pre-agreement documentation for technical assistance and financial products shows (for Track 1 more than for Track 3) that likely inclusive growth effects are a consideration in the approval process – even though no attempts are made to subsequently measure the inclusivity of the investment's results. In **Track 2**, inclusivity is sometimes an accidental side benefit, but the Fund Manager has also made investments that were specifically designed to achieve inclusive growth effects, by selecting investment funds in niche markets with high development relevance and, in a few cases, by incentivising IF/FI leadership to reach development-relevant targets. In all tracks, DGGF's public communication shows that DGGF is aware of this part of its remit, and eager to share successes in this field with the wider public.

[87] For an overview of such benefits, see Eekelen, W. van (May 2020) *Rural development in practice*, Routledge, Chapter 6 on ICT. (This book includes case studies of two DGGF-supported agro-tech companies.)

Box 6: DGGF co-invested in a portal that links healthcare users and providers

DGGF co-invested in a company that developed an information and payment portal that gives healthcare providers instant access to accurate information on the insurance status of patients who present themselves. This reduces administration and verification time, and helps optimise the time of medical staff. The system is being rolled out across Kenya, Uganda and parts of Nigeria. The healthcare efficiency and accessibility gains are significant already, and 4.6 million people had registered by the end of 2019. The growth patterns of other ICT solutions that involve insurance and virtual money transfers suggest that further growth may be rapid and exponential, and that this portal will reach increasingly large segments of society.

8.3 DGGF also made investments that widened inequalities and reinforced the dual nature of developing country economies. DGGF does not consider this a problem.

Some investments contribute to inclusivity and poverty reduction, but they are not *required* to do so, and many of DGGF's IF/FI partners do not have a development-related focus. Their leaders' income is often linked to commercial success only (though there are exceptions) and their agreements with DGGF do not generally mention DGGF's development-related targets.[88] These IF/FIs' predominant SME selection criterion is the expected financial return on investments.[89] We saw investments – overall and in **Track 2** in particular – that were focused on the top rather than the base of the pyramid and that reinforced rather than reduced inequalities. On the production side, some of the DGGF investees employ mostly highly educated and well-paid urbanites, and source their inputs almost exclusively from abroad or from larger-scale farmers. On the consumption side, DGGF invested in elite health care and costly private education, for example, in countries in which basic healthcare and education systems are not in place (but see Box 7 for an example of a private healthcare investment that may benefit poorer segments in society as well). There is no evidence that DGGF considers an investment's focus on the higher end of a dual economy to be problematic. There are no documented discussions on this issue, and **Track 2** has never requested excuse rights on the grounds of the exclusionary nature of an investment.[90]

Box 7: Private sector healthcare investments may benefit poorer segments in society as well

DGGF invested in a specialist cancer hospital in Ivory Coast – a country that lacks basic healthcare services and scores poorly on maternal health, child mortality and other key health indicators. Such an investment reinforces the country's dual economies, and does not amount to 'inclusive development'. However, DGGF also invested in hub-and-spoke medical facilities in Assam, one of the poorer states in India, and this investment may have two positive effects on the poorer segments of society.

[88] Sometimes these agreements include a non-specific and non-operationalised reference to the need for 'development impact'.
[89] An investment fund that shared three of its full (60+ page) investment proposals with us did not, for example, mention employment creation effects in any of them, and did not note that two of the companies they invested in paid base salaries below half the living wage. When we asked about the 'development relevance' of these investments, during the interview, the response was "we don't know" and "we just assume that all investments create employment".
[90] An 'excuse right' is the right for DGGF-financing not to be used for certain types of investments. The Track 2 Fund Manager has sometimes incorporated excuse rights, in its Terms of Engagement, in case of investments that are beyond a certain size, or investments in non-DGGF countries. However, the Fund Manager has not *used* its excuse rights yet, and has few other forms of influence over IF/FI investment choices.

First, it offers healthcare services that are affordable to many, and therefore 'competes' with public healthcare facilities rather than with elite facilities in other states. This may reduce the pressure on the state's public healthcare facilities, which benefits the remaining users of those facilities. Second, the hub-and-spoke model is new to Assam, and an efficient way of organising healthcare services. The model has received media and political attention, and may well be replicated by competing providers. In a state with a shortage in medical staff, efficiency gains mean that the medical staff can cater for the healthcare needs of a larger group of people.

Generally, DGGF-financed investments that focus on high-end markets were made in or close to capital cities. There is a similar – and strong – big city bias in Track 2's choice for IF/FIs, incubators and accelerators even though, compared to the big cities, poverty in smaller towns and rural regions is generally higher, investments are more labour intensive and the financial missing middle is larger.

This choice is not specific to DGGF: it is the default within the financial sector in many developing countries, where banks and other formal financial institutions only leave big cities once these cities are financially saturated. Typical investment identification processes reinforce this bias, as they are often based on networking and snowballing, and this is healthy investment behaviour but does come with an in-crowd bias that is, in some countries (e.g. Egypt, Ethiopia), further reinforced by the use of English and French as the *lingua franca*. In the case of DGGF, the briefness of DGGF's country visits, by Fund Managers and consultants, further consolidate this big city bias, as short visits do not allow for an exploration of possible partners that reach into smaller towns and rural areas.

The Track 2 Fund Manager provided two rationalisations for its big city bias:

- The Fund Manager is required to build an investment portfolio that revolves and has found that a focus on out-of-city investments with high development relevance makes it more difficult to achieve this. The Fund Manager argues that, with notable exceptions, "our experience has been that … the proposals with a strong … impact thesis [often] lacked on the quality of the actual investment proposition and vice versa".[91]
- The Fund Manager follows a *betting-on-the-strong* rationale: the notion that, over time, economic growth and financial products will naturally trickle down, from capital cities to elsewhere, and from wealthier to poorer segments in society. The evidence base for this is weak, and the Letters to Parliament warn against this rationale. This approach increases the disparity between the capital city and the (typically poorer) rest of the country. Not prioritising indigenous SMEs outside urban centres, which are comparatively less formal, less likely to grow fast, less likely to have actionable collateral, and harder to reach and engage with (but may be more likely to contribute to inclusive growth) effectively means that they will not be reached, as such companies are of no interest to city-based lenders or equity investors. This contributes to a self-fulfilling prophecy: by not reaching them, they cannot prove their worth and cannot produce 'I-could-be-*her*' role models (successful young female entrepreneurs who are non-urban, non-foreign and non-repatriate). High-end big city investments do have the opportunity to prove themselves – and their success consolidates the dual economy and their niche's investment appeal.

We conclude that DGGF appreciates investments that contribute to inclusive growth and poverty reduction, but that it is optional. DGGF also and uncritically allows investments that cater for the wealthiest segments of society, also in fields such as health and education, in countries in which most people do not have access to the basics. The latter type of

[91] Written communication from the Track 2 Fund Manager to the evaluation team, May 2020.

investments, as well as the DGGF's strong big city bias, may have an overall positive effect on revolvability, but these investments reinforce the dual nature of economies and, with that, reinforce relative poverty and exclusion.

8.4 DGGF mitigates effectively against the use of child labour and forced labour, as well as against investments on contested lands.

Child and forced labour are red lines. DGGF mitigates these risks to the extent possible, in the companies it invests in and in the supply chain networks of these companies. DGGF does so using a combination of awareness-raising and hard conditions. The efforts are successful: we saw no evidence of child labour or forced labour in any of the DGGF-financed companies we visited.[92] Using contested land is another red line, and DGGF uses diplomatic missions to avoid investments on such lands. DGGF follows the missions' advice: we saw an application that was rejected, following a Dutch embassy's negative advice, on the grounds of lack of clarity about a Dutch farmer's right to use a plot of land.

Within DGGF, only Track 1 formally considers other potential side effects – such as an investment's potential effect on local production displacement, job displacement and a community's level of inequality. Though side effects can be complex and ambiguous (see Box 8), some of them are easy to predict and could potentially inform approval processes.

Box 8: For some investments, side-effects are complex and unpredictable

Track 3 facilitated the export of Dutch freezers to a fish processing company on the northern edge of Lake Turkana in Ethiopia.

Financially, this export facilitation was unsuccessful. The importer encountered a range of costly setbacks and defaulted on its original and restructured payments. The company had not created the anticipated jobs either, and trading was erratic but generally only a fraction of the original estimates. At the time of our visit, none of the freezers were in use. When we phoned, a month later, fish processing and trading had started again – though not close to full capacity.

Moreover, there were negative externalities. Households had moved to the proximity of the company's premises, hoping to increase their incomes, and these households' children had therefore dropped out of education, as there was no school in this area. Fish that had traditionally been dried and trucked to markets in the DRC was now, in part, sold to high-end restaurants and supermarkets in Addis Ababa, and this meant loss of nutrition in DRC communities and job losses among fish-drying households.

But there were positive externalities as well. First, the difficulties of the importer were caused by stifling bureaucracy and corruption, which received media attention and led to the government appointing and empowering a committee of regional businesspeople (including the DGGF investee) that, at the time of our visit, was suggesting improvements to local regulations. This may improve the local business environment. Second, there was a demonstration effect: shortly after the installation of the freezers, a company on the Kenyan side of the border installed freezers as well. Third, the DGGF-financed company was led by an expert in sustainable fishery management, and his awareness-raising efforts were contributing to an increased level of local understanding about good fishery practice, and to the beginning of a change in the nets that were being used (i.e. bigger holes to ensure fishlings have time to grow). Such change is fundamental to the sustainability of Lake Turkana's fishing practices.

If these side effects sustain, the results of the import of these Dutch-produced freezers may amount to 'exceptional development' – even if Track 3 incurs a loss on its bills of exchange.

[92] Excluding light after-school contributions to family farm work, which we saw only once.

8.5 Conclusions on impact

- **DGGF made investments that contributed to sustainable and inclusive economic growth and poverty reduction**, or that have the potential to do so in the near future. The Fund's investments created jobs in sectors that benefit segments in society that often live below the poverty line; strengthened people's livelihoods; and reduced income variability and shocks. In our sample, we also saw investments that have broad-based health benefits, and investments that reduce the urban-rural digital divide – which opens the door to a host of other development benefits. A few investments in agro-tech companies may help reverse declining groundwater levels and reduce the use of polluting chemicals in agriculture – both essential for long-term food security.
- Such effects are sometimes noted and appreciated by the Fund Managers. However, achieving them is above the Fund Managers' accountability threshold, and some investments were largely irrelevant in relation to sustainable and inclusive development effects. Other investments employ and cater for the wealthiest segments of society, also in fields such as health and education, in countries in which most people do not have access to the basics. The latter type of investments, as well as the DGGF's strong big city bias, reinforces the dual nature of economies. By doing so, **some DGGF investments consolidate relative poverty and exclusion.**
- DGGF monitors the proportion of entrepreneurs that are young and/or female, but does not assess its investments' effect on a community's level of income or consumption inequality, and there is no documented evidence of DGGF concerns about such effects. The Fund does not monitor externalities such as local production displacement or job displacement either, but **the Fund carefully assesses and monitors the use of child and forced labour, and the use of contested lands.** These are red lines and, in our sample, we saw no evidence of these lines being crossed.

9. Sustainability

This section assesses:

- The sustainability of DGGF's effects on Dutch trade and investments (9.1).
- The sustainability of DGGF's effects on development effects in DGGF countries (9.2).
- The financial self-sustainability of the DGGF itself (9.3 and 9.4).
- The extent to which DGGF has demonstrated, to Dutch companies and banks, the profitability of development-relevant transactions so that they will, in time, finance such transactions themselves (9.5).

9.1 The DGGF-financed export stream will stop if this export financing is discontinued.

If DGGF were to discontinue its export facilitation products, the Dutch companies would largely discontinue the type of exports that they currently use DGGF products for. The reason is that they perceive the risks to be too high for unsupported exports, or because Dutch exporters require bills of exchange financing to successfully compete with other countries' exporters that sell lower-cost equipment.

9.2 At least until the start of the COVID-19 pandemic, DGGF's direct development results were likely to be sustainable.

Most of the investments we reviewed, directly and through the thematic evaluations, resulted in knowledge transfer, increases in production capacity, and new jobs. At least until the start of the COVID-19 pandemic, the development gains achieved by such investments were likely to be sustainable, as they were not merely development-relevant but made good business sense as well. In some cases, DGGF investments contributed to growth beyond what was caused by the investment directly, partly because they provided collateral that was subsequently used to attract additional non-DGGF financing.

9.3 DGGF's revolvability aim is underpinned by the assumption of DGGF's 'fijnmazigheid'. This *fijnmazigheid* does not in fact exist.

In November 2012, a Minister's Letter to Parliament said that DGGF would be a revolvable fund, and that the DGGF instruments would be adapted in case the Fund's revolvability was not achieved in full. The notion that DGGF could be simultaneously *revolving* and *additional* was underpinned by the DGGF's assumed 'fijnmazigheid': the Fund would outperform the private financial sector because of the Fund's ability to conduct more detailed and localised assessments of investment risks, via networks that included, among others, "Dutch embassies, Dutch companies with a local presence, banks and investment funds, non-governmental organisations and knowledge institutes".[93] Such assessments would prevent market failure caused by an information deficit that explained the banks' overly risk-averse decision-making.

There was no such *fijnmazigheid*. There is no evidence of DGGF outperforming the private financial sector, and DGGF has not confirmed the premise that banks are overly risk averse. Instead, the DGGF investments to date are investments that commercial financers find unattractive, not because of a market failure but because the investments *are* collectively

[93] Letter to Parliament (30 September 2013) *Ondernemen voor ontwikkeling: investeren in duurzame en inclusieve groei*, page 19. Other sources suggest yet other stakeholders that DGGF would engage with.

commercially unattractive. There are high risks – proven by the relatively high number of DGGF's non-performing and at-risk investments – and there is an unfavourable balance between the costs of due diligence and information gathering, and revenues. The private financial sector therefore has good reason to avoid such investments as it (and DGGF) cannot charge premium rates to compensate for these relatively high risks and costs. High rates would further reduce the already modest demand for the DGGF-type financial products of **Track 1** and **3**. (Most **Track 2** investments are in the form of equity capital, which does not have 'rates.)

9.4 DGGF is not fully revolvable

DGGF's 100% revolvability requirement was always nominal, and its seed capital, various types of technical assistance, communication costs and, later, costs of currency hedging are not part of the revolvability requirement. Even with these exceptions, DGGF has not been fully revolvable at any point in the review period, and there is no clear trend towards increasing revolvability over time.

Track 1 has not yet approached full revolvability even though, in 2014, MFA agreed to add the Fund Manager's start-up costs to the revolvability requirement exclusions (€5.5 million by the end of 2019; the other Fund Managers do not have an equivalent exemption). The Fund Manager had cautioned against the assumption of full revolvability, even before Track 1's launch.

When Track 1 was launched, it took the Fund Manager longer than expected to build an investment portfolio. Moreover, in part to increase demand and at the request of MFA, the Fund Manager added instruments and targeted new groups of clients that put the goal of revolvability further out of reach. These new instruments added to management costs, increased risks, and reduced interest rates and repayment obligations. Each year, the Fund Manager shared its revolvability concerns with MFA but never received a clear set of guidelines on the management of the trade-offs between revolvability, additionality, speed of portfolio growth and concessions, with clear red lines and threshold criteria for 'satisfactory performance'.

At the end of 2019, Track 1's revolvability was 90% according to Track 1 calculations, and 86% when counting the accumulated operating losses. During this review period the track's operating result improved (from a low of minus €1.5 million in 2016 to plus €300,000 in 2019), but this does not signify an extrapolatable trend, for two reasons. First, the most recently introduced instruments are the costliest and least revolvable ones. Second, the Fund Manager's net gain calculations do not include loan loss reservation, though several loans are likely to be written off (including one of almost €6 million).

The Fund Manager is aware of the lack of revolvability of Track 1, and by the end of the review period it has come to see revolvability as a 'duty to make an effort' ('inspanningsverplichting') rather than an actual requirement.

The Fund Manager of **Track 2** bases its revolvability predictions on estimates of the NAV of its investments because, outside of its loans portfolio (block 3), there have not been any exits yet. Whilst the NAV estimates are imprecise for individual companies and funds, particularly in immature financial markets, the standardised estimation methods mean that the aggregated estimate is likely to be reasonably robust.

If the NAV estimates are collectively realistic, the internal rate of return since the fund's inception is -9% with or -1% without including the fund management costs. This is exclusive of Track 2's seed capital and technical assistance investments, which are not included in the revolvability estimates. Achieving higher revolvability would have been possible, but only by compromising other Track 2 aims, such as additionality, catalytic effects, development relevance and new political priorities.

Even without loss reservation, **Track 3** has not been fully revolving to date, and it is unlikely to revolve in the future. There are two reasons for this. First, the fixed management costs are based on the originally expected portfolio volume of €175 million.[94] The actual portfolio of €64 million at the end of 2019 is only 37% of that originally available capital (or 52% of the reduced available capital). Second, Track 3 only covers contracts that cannot be insured by the Fund Manager's other Dutch insurance (which itself is also not commercial), because of their high risks: over the review period more than half the value of agreements was for exports to countries that the Fund Manager had allocated a 7:7 risk rating. This high risk shows itself in Track 3's bills of exchange financing (which the Fund Manager does not offer through other channels): by the end of 2019, importers had only paid a third of their bills of exchange obligations (€2.3 million out of €6.8 million).

We conclude that DGGF as a whole is not fully revolvable and is unlikely to become fully revolvable in the near future. This is not because the management fees are disproportionate to the effort extended (they are not, in their totality) but because of the time-intensive nature of some of the instruments and the costs that arise from the high risks. We also note that, per unit of capital, a partially revolving fund is able to fund investments that are multiple times greater than one a grant arrangement could finance, which is why the costs-per-job of a partially revolving fund cannot be compared to the costs-per-job of a grant-based instrument.

9.5 DGGF makes a modest contribution to the long journey towards fully commercial financing of SMEs in DGGF countries.

DGGF is a subsidised and only partially revolving fund. It has leveraged co-investments, including a few commercial co-investments, but it will not fulfil its aim of inspiring the private financial sector to offer independent, unsubsidised DGGF-type products. We saw no evidence of such effect, and we did not see evidence of DGGF-inspired increases in Dutch companies' exports or investments either, outside of direct DGGF-facilitated trade.

However, five of DGGF's seed capital investments that attracted follow-on financing included financing under terms that were less concessional than DGGF's investments had been, even though these investments were generally still made by institutional investors. This was not what the DGGF originally wanted to achieve, but it contributed to the long road towards fully commercial financing, which is likely to require a gradual transition toward less and less concessional financing. The DGGF's role in this gradual transition toward increasingly commercial financing is modest and limited to the IF/FIs the Fund invested in directly. In addition DGGF could, in principle, help reduce the financial missing middle in DGGF countries by sharing learning and by testing and showcasing innovative approaches to other stakeholders that work with start-ups and SMEs. In this respect, we note (but did not assess the effects of) DGGF's influencing efforts to reduce the extent of the missing middle in three other ways:

- DGGF (co-) produced knowledge products, and disseminated these products through seminars, conferences and other events. These products included missing middle analyses for several countries and regions; reviews on financial service delivery to women- and youth-owned companies; and reflections on the use of mezzanine products.
- DGGF sought to apply its expertise to expand and improve missing middle financing through collaborating with governments, investors and IF/FI managers. For example, the DGGF shared lessons learned with a donor government, to inform the structure of a new SME-focused fund-of-fund.

[94] Which, in internal documentation, the Fund Manager estimated to require 30 applications per year, which brings the average cost per application (successful or not) at €38,000 (€1.13 million, divided by 30).

- DGGF supported IF/FI managers to engage with governments and regulators, to inform improvements in the regulatory system and guidelines shaping the financial sector that SMEs operate in.

We conclude that the direct effects of DGGF's investments are often sustainable; that DGGF did not and is unlikely to achieve its ambition to be a fully revolving fund; and that there is little evidence that DGGF has demonstrated or is able to demonstrate, to investors or Dutch companies, the profitability of development-relevant exports and investments. The Fund is making a modest contribution towards less concessional financing and could potentially reduce the extent of the missing middle through its influencing efforts.

9.6 Conclusions on sustainability

- DGGF's support to Dutch exports enables Dutch companies to take risks they would not independently take, and increases their products' competitiveness compared to lower-cost alternatives because of DGGF's bill of exchange financing. **Most DGGF-supported exports will stop if DGGF's financing is discontinued.**
- Our review period ended before the COVID-19 pandemic started. At the cut-off point of December 2019, **the direct development effects of DGGF's investments often looked sustainable.** This shows the rigour with which DGGF and its partners scrutinise the business plans and prospects of the companies they consider working with.
- **This is less true for the Fund's own financial sustainability**. A predictable consequence of the Fund's deliberate risk-taking in tough operating environments is that a significant proportion of DGGF's investments disappoints or fails altogether. This, and the DGGF's slower-than-expected portfolio growth, means that **DGGF's nominal revolvability aim is unlikely to be achieved**. The recently added instruments of Track 1 are likely to put further pressure on the Fund's revolvability, as these seek out risk while being priced at concessional rates.
- A partially revolving fund has clear advantages over the Dutch government's pre-DGGF grant-based instruments because, per unit of capital and in the longer term, it can fund a far higher volume of investments. However, **a partially revolving fund does not demonstrate, to the private financial sector, that SMEs in DGGF countries are a viable asset class**. Indeed, we saw few such demonstration effects.
- However, **Track 2 seeks to address the financial missing middle through influencing**. By sharing experience and knowledge products, and by supporting IF/FI managers to engage with governments and regulators, DGGF seeks to reduce the financial missing middle in general, and in some of the countries in which it operates. Assessing the results of this influencing work requires real-time evidence gathering systems and processes that DGGF does not yet have but could build up with relative ease.

10. Conclusions

This concluding section covers each of the themes covered in this report, in turn.

Policy coherence and relevance

DGGF is broadly aligned with the wider policies, agendas and commitments of the Government of the Netherlands, and its two foundational assumptions are correct:

- Insufficient access to finance hinders the SME sector in DGGF countries, as well as Dutch SMEs that would like to invest in or export to these countries.
- DGGF is able to provide financial products and services to financially underserved SMEs without competing with the private financial sector.

In her Letters to Parliament, the Minister said that DGGF would support Dutch companies' success on international markets. As a partly tied aid instrument, Dutch company success is indeed part of DGGF's design. The Minister also said that DGGF's investments would have direct development results in DGGF countries. Specifically, DGGF investments would create jobs, add to production capacity and enhance transfer knowledge transfer – also in low-income countries and fragile states. The Fund would target women- and youth-owned companies in these and other DGGF countries, and investments would have environmental and social benefits. These result areas are all reflected in the set-up of DGGF, and in the design of its instruments, albeit without attention to the Minister's commitment that these results would be broadly proportional to investment size.

The Minister linked these direct results to more fundamental and longer-term results, but DGGF is not fully set up to contribute to these longer-term results. Specifically:

- DGGF is not designed to systematically seek out investment opportunities that foster inclusive growth and poverty reduction, or that empower vulnerable groups. It is possible that investments meet all DGGF's selection criteria while they increase inequalities and (relative) poverty, and ignore vulnerable groups.
- The assumption that an instrument like the DGGF could demonstrate, to the private financial sector, the profitability of SME-focused development-relevant transactions. This assumption is implausible and has not been confirmed by empirical research.
- The assumption that DGGF could reduce irregular migration flows to Europe by increasing opportunities to youth in a group of 'focus countries' was disproved by almost all empirical research. The opposite is true: in low- and lower middle-income countries, better prospects increase people's propensity to migrate.

Efficiency

The original capital utilisation plans were unrealistic for a new fund that operates in challenging markets, and that is managed by Fund Managers that were all new to elements of DGGF's work. By the end of 2019, DGGF had only utilised half its capital of €700 million, against the original plan of full utilisation by the end of 2017. This means that, in our review period, DGGF was a costly fund, per unit of investment. However, the management fees are reasonable and the costs are coming down as the portfolio expands. Once DGGF approaches full capital utilisation, costs will be at a level that is comparable with other DFIs and investment funds.

DGGF's synergies were meant to increase the Fund's efficiency. There is synergy *within* each of the three tracks. In Track 1 and 2, technical assistance supported investments. Track 2 deployed seed capital to get investment funds ready for DFIs (which is a helpful innovation in the DFI sector). Track 3 usefully combined export risk insurance and bills of exchange financing. However, there is little synergy *across* the tracks – also because Track 2 has little in common with Track 1 and 3. In the wider financial sector, DGGF sometimes works in synergy with other investors – mostly other DFIs. However, its leverage effect is smaller than originally envisioned, and smaller than the Minister asserted. It is also less causal than the word implies: most 'leverage' is really co-dependency of investors, and a portion of its investments is leveraging as much as it is being leveraged. Most of the leveraged capital is not (yet) from the private financial sector, but from public and private non-profit sources.

Standardised, transparent, predictable and timely end-to-end financing application processes, which are based on systematically applied and unambiguous criteria that are known to applicants at the start and do not shift midway through the process, are also an important component of efficiency for most financial products (with the exception of equity investments). Track 1 processes do not fulfil these criteria. The Track 3 processes are more systematic and streamlined, but the Fund Manager does not keep applicants sufficiently informed about progress.

Effectiveness

In the longer term, DGGF aims to create indirect development results by inspiring companies and the unsubsidised private financial sector to invest in SMEs in DGGF countries. DGGF does not try to capture these effects, and we did not see them within our sample. Therefore, our conclusions relate to DGGF's direct effects only.

The Minister committed to a number of direct results and there are examples, within DGGF's portfolio, of successes in each of these result areas. Collectively, however, DGGF's direct trade and development results are lower than originally expected. This is because of the low utilisation of capital, DGGF's systematic optimism bias, and operational weaknesses.

By the end of 2019, DGGF had made a modest contribution to Dutch companies' exports to and investments in DGGF countries. These companies, and the companies served by Track 2, directly contributed to the net creation of almost 10,000 jobs in DGGF countries, after the Fund's first five and a half years, against original estimates of over 130,000 jobs in the course of the Fund's first 15 years. These were created in 7,000 companies in DGGF countries. MFA's targets for investments in women-owned and youth-owned companies, and in companies in fragile states (at least 15% of disbursed capital for each group) were exceeded because of deliberate and ongoing efforts within Track 2 (for all groups) and as the consequence of the additionality of Track 3 (which meant that Track 3 accepted high-risk exports to fragile states).

DGGF often facilitated increases in production capacity. DGGF also often transferred relevant knowledge, directly and indirectly. However, the Fund is over-reliant on training, in its approach and its reporting, and unambitious in its monitoring of the effectiveness of its technical assistance.

DGGF did not follow up on the Minister's commitment to a rough proportionality between development effects and investment size, but this is defendable if investments with limited development relevance benefit the Fund's revolvability. (It is too early to confirm that this is the case.) Only a quarter of DGGF's portfolio is focused on low-income countries (against a Track 2 target of more than half its investment volume, which was DGGF's only target in this field). This is also defendable, as other priorities – particularly the mid-period priority of 'focus countries' (which attracted 43% of DGGF's total cumulative investments by the end of 2019) – effectively superseded this target.

DGGF actively engages with CSR issues, but there is a disconnect between the documentation and operational realities. We saw health and safety issues that DGGF appeared to be unaware of. Moreover, only the Track 1 Fund Manager was tracking progress on companies paying the living wage. The environmental part of CSR led to mixed results: there are investments with significant environmental benefits, but there are also investments that cause significant pollution, as well as some with obvious environmental risks. DGGF's work on governance issues was successful and widely appreciated, by both DGGF-supported IF/FIs and the SMEs they invested in.

Impact

In the Netherlands, DGGF contributed to the performance of most of the companies it worked with.

In DGGF countries, DGGF made investments that contributed to sustainable and inclusive economic growth and poverty reduction, or that have the potential to do so in the near future. The Fund's investments created jobs in sectors that benefit segments in society that often live below the poverty line; strengthened people's livelihoods; and reduced income variability and shocks. In our sample, we also saw investments that have broad-based health benefits, and investments that reduce the urban-rural digital divide – which opens the door to a host of other development benefits. A few investments in agro-tech companies may help reverse declining groundwater levels and reduce the use of polluting chemicals in agriculture – both essential for long-term food security. DGGF appreciates such benefits, but does not systematically pursue and monitor them.

DGGF does not systematically assess its investments' effects on inequality, and financed a number of investments that employ and cater for the wealthiest segments of society. This was also the case in the fields of health and education, in countries where most people do not have access to the basics. Such investments, as well as the DGGF's strong big city bias, reinforce inequalities. Therefore, DGGF's *overall* effect on inequality, and with that its contribution to inclusive development, is unknown.

The Fund does not monitor other negative externalities such as local production displacement or job displacement either, but it does assess and monitor the use of child and forced labour, and the use of contested lands. These are formal and Fund-wide red lines, and in our sample we saw no evidence of these lines being crossed.

Sustainability

DGGF's support to Dutch exports enables Dutch companies to take risks they would not independently take, and increases their products' competitiveness compared to lower-cost alternatives from other countries, because of DGGF's bills of exchange financing. The DGGF-supported part of these companies' export stream would stop if DGGF's financing discontinued.

Our review period ended before the COVID-19 pandemic started, and the world has obviously changed since our cut-off point of December 2019. At that time, the direct development effects of most DGGF-facilitated investments looked sustainable. This highlights the rigour with which DGGF and its IF/FIs scrutinise the business plans and commercial prospects of the companies they consider working with.

Nevertheless, a predictable consequence of the Fund's deliberate risk-taking and tough operating environment is that a significant proportion of DGGF's investments underperforms or fails. This, and the DGGF's slower-than-expected portfolio growth, means that DGGF is unlikely to reach its stated aim of 100% (nominal) revolvability. The more recent instruments of Track 1 are likely to put further pressure on the Fund's revolvability, as these explicitly seek out risk and offer highly concessional loans.

A partially revolving fund allows for a long-term investment volume that is far greater than what the Dutch government's pre-DGGF grant-based instruments could potentially achieve. However, partial revolvability will probably not signal, to the private financial sector, that SMEs in DGGF countries are a viable asset class. Indeed, we saw little evidence of DGGF catalysing commercial private finance for SMEs in DGGF countries. We saw some evidence of DGGF financing attracting subsequent financing that was less concessional, and this is a useful step in a gradual, long-term process toward commercial financing.

We also saw evidence of DGGF's influencing efforts. By sharing experience and knowledge products, and by supporting IF/FI managers to engage with governments and regulators, DGGF seeks to reduce the financial missing middle in the countries in which it operates. Assessing the results of this influencing work requires real-time evidence gathering systems and processes that DGGF does not yet have but could build up with relative ease.

11. Recommendations

Recommendation 1

DGGF should operationalise its line of sight to inclusive development and poverty reduction. DGGF should do more to identify, celebrate, replicate and learn from successes in this field, and avoid investing in endeavours that widen inequality.

Problem statement

- The Government of the Netherlands recognised that “growth and a fair distribution do not always come together” and established DGGF to “add inclusiveness” to its “sustainable growth” pillar. This is the reason for the Fund’s name (the Dutch *Good* Growth Fund), and it is captured in the Fund’s theories of change, but it is not fully reflected in its design, incentives, conditions or monitoring.
- Some investments make significant and sometimes even systemic contributions to inclusive development and poverty reduction. DGGF’s documentation shows that DGGF values this, but it could do more to identify such investments, measure and celebrate their successes, and replicate and learn from them.
- Some investments risk widening inequalities by employing mostly well-educated urbanites, sourcing inputs from abroad or from larger-scale farmers, and catering for the wealthiest parts of society.
- This risk is particularly high for some of the Track 2 investments. There is no documented evidence showing DGGF awareness of this risk. Its Fund Manager did not ask for excuse rights (i.e. the right not to co-invest) for IF/FI investments that may reinforce inequalities.
- The Track 2’s strong big city bias and its choice of partners add to the risk of making such inequality-reinforcing investments. This bias also means that few Track 2 investments are made in smaller towns and rural regions, even though, compared to the big cities, poverty there is generally higher, investments are more labour intensive and the financial missing middle is larger.

Recommendation 2

MFA should consider if the DGGF’s three tracks, and the many instruments within these tracks, have enough in common to serve as sensible component parts of a single fund.

Problem statement

- The Fund Managers regularly discuss CSR issues. Apart from this, the three DGGF tracks have little in common. The only potentially significant synergy among them is between Tracks 1 and 3, and this is not currently being achieved in full. Track 2 has nearly no overlap with the other tracks. Its remit is much closer to FMO Massif, another SME-focused DFI that was capitalised by the Government of the Netherlands.
- The absence of well-defined aims (see Recommendation 3), in combination with the modest demand for DGGF’s core products and shifting political priorities, led to a loosening of the conditions of DGGF’s initial instruments, and the addition of new ones. These changes were individually defendable but collectively created a fragmented fund that covers the full spectrum from the incubation of start-ups to the facilitation of mature trade, investments and diversification.

Recommendation 3

Using the experience built up over the past five years, DGGF should revisit its targets, theories of change and accountability thresholds. DGGF should define aims that are clear and realistic with defined time horizons, and it should measure progress against them in a manner that is consistent across its tracks.

Problem statement

- DGGF is a young fund that was created in a context with large data voids, by a ministry and Fund Managers that had no prior experience with elements of this new fund.
- This led to aims and targets that were not well-defined. Priorities, interpretations and measurements of key aims and targets, and their underpinning concepts and metrics, changed over time and differed across and within tracks.
- Where DGGF did define targets, ambitions and expectations, these have been subject to a systematic optimism bias. This means that MFA and its Fund Managers set themselves up for failure against expectations. This optimism bias persists and some targets beyond the review period are unrealistic (also prior to the COVID-19 pandemic).
- This optimism bias is reinforced by DGGF's Theories of Change, which were never revisited and may exaggerate the potential showcasing effects of a modestly-sized and subsidised fund that spreads itself over 46 (out of 70 eligible) countries.

Recommendation 4

MFA should reconsider its formal revolvability requirement for elements that cannot potentially achieve it. MFA should acknowledge trade offs between, and be explicit about acceptable deviations from, revolvability and other requirements.

Problem statement

- DGGF is meant to be a revolvable fund, and originally planned to adapt its instruments in case full nominal revolvability was not achieved.
- This full revolvability was needed to demonstrate, to the private financial sector, that SMEs in DGGF countries are a viable asset class. This is not a strong rationale as DGGF is too small, and spread over too many countries, to have such demonstration potential beyond individual investments. (DGGF *can* potentially contribute to the rise of blended financing and increasingly less concessional financing – but this does not require full revolvability.)
- This full nominal revolvability was seen to be achievable because of 'fijnmazigheid': DGGF's assumed ability to outperform the private financial sector by conducting more detailed and localised risk assessments. This *fijnmazigheid* does not exist.
- Track 1, and its risk-seeking and highly concessional new instruments in particular, will not fully revolve. Track 3 is two steps removed from commercial viability and will not fully revolve either. Track 2 *could* fully revolve, but not in combination with the current set of other requirements (e.g. the additionality of financing, high risk appetite, targets to reach fragile states). Our additional proposed requirement in relation to the inclusivity of growth (see Recommendation 1) may add to the revolvability challenge.
- There is no formal MFA guidance in relation to the trade offs between, and acceptable deviations from, revolvability, additionality, risk-taking, and a range of other requirements that collectively reduce the Fund's revolvability.

Recommendation 5

For as long as there is an underutilisation of available capital, Tracks 1 and 3 should more proactively generate demand. Both tracks should focus their demand-creating efforts on DGGF's specific target groups. They should optimise their application processes.

Problem statement

- By the end of 2019, Tracks 1 and 3 had utilised less than half their joint share of DGGF's available capital (either original or revised).
- Tracks 1 and 3 see themselves as demand-driven tracks. They have not exhausted opportunities to identify and awake latent demand, either directly from among Dutch companies (including diaspora-owned companies) or indirectly by creating an interest among SMEs in DGGF countries. Track 3 never used DGGF's Technical Assistance facility for its stated purpose of supporting the Track 3 application process.
- For Track 1, the end-to-end application processes for financial products and technical assistance are not sufficiently standardised, transparent, predictable and timely; and they are not based on systematically applied and unambiguous criteria that are shared with applicants at the start and that do not shift midway through the process. There are discrepancies between the paper and actual limits and requirements.
- The Track 3 application process is swifter and more standardised, but does not have an online application tracking or equivalent system in which the applicant is kept in the loop about progress.
- Tracks 1 and 3 both lost investment opportunities because the application process was long and lacked transparency.

Recommendation 6

Fund Managers should do more to build their understanding of on-the-ground realities. This would help to address CSR and other challenges, and to replicate success.

Problem statement

- The Fund Managers make relatively few visits and do not make sufficient use of local consultants. When Fund Managers do make visits, they are brief, and they reinforce DGGF's big city bias. They are also always pre-announced and subject to staging.
- The Fund Manager of Track 2 does not systematically combine its annual monitoring cycle with FMO Massif or other DFIs that invest in the same IF/FIs.
- As a result, the Fund Managers underestimate CSR challenges and overestimate what their training achieves or could potentially achieve. They are also insufficiently aware of the positive and negative externalities of their investments. DGGF does not systematically monitor externalities, and its monitoring of CSR issues is insufficiently ambitious.

End of report

Annex 1: Evaluation questions

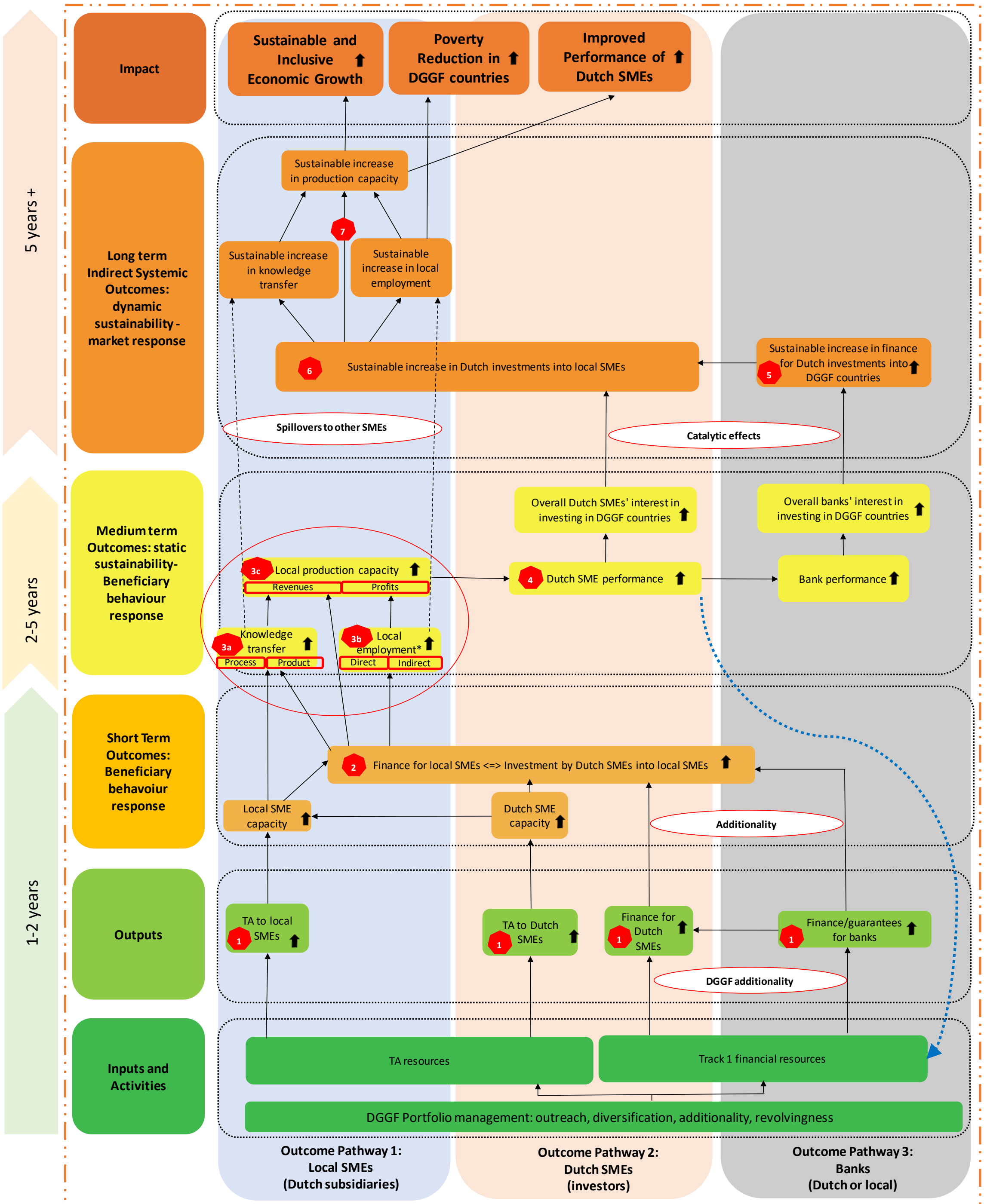
These are the evaluation questions that MFA proposed in 2014. MFA had formulated these questions in the broader set-up of the OECD and IOB evaluation criteria.

1. Were the outputs of the programme delivered as planned (if not, why)?
2. What was the expenditure for the different DGGF (sub-) components through the different instruments?
3. To what extent have the DGGF instruments been used?
4. What can be said about the synergy both amongst the DGGF instruments themselves (including technical assistance budgets) as well as with regard to the already available financial and non-financial instruments in the (inter)national markets?
5. To what extent was the technical assistance instrumental in delivering the intended results?
6. How were SMEs and IFs selected (or accepted)?
7. What are the profiles of the selected SMEs or IFs?
8. What were the reasons for rejecting SMEs/IFs (e.g. not in line with CSO and tax standards)?
9. What were the profiles/characteristics of the rejected SMEs/IFs?
10. What can be said about the direct (and indirect) outreach of the programme-funded initiatives; amongst young entrepreneurs, female entrepreneurs, beneficiaries in fragile states?
11. To what extent did participating Dutch companies increase sales/exports/investments to DGGF countries as a result of the DGGF funded interventions?
12. Was this increase also in new markets and/or products not yet exported (diversification)?
13. Which company types benefitted most (export experience, company size class, sector, trade experience, policy context, country income category)?
14. To what extent did benefits (exports, jobs) continue after the interventions were completed?
15. What can be said about the local SMEs that were funded by IFs?
16. What is the total amount of loans provided to local SMEs? How many local SMEs were funded by IFs?
17. To what extent did the catalysing effect take place as a result of the DGGF instrumentation?
18. What is the catalysing (leverage) effect per track and per investment?
19. What were the conditions under which this leverage is likely to take place or not?
20. What can be said about the cornerstone- and demonstration effect (Track 2)?
21. To what extent can social effects like direct and indirect additional employment and job creation be attributed to DGGF intervention?
22. What is the effect on the gender balance, young entrepreneurs, and fragile states?

23. What are the spill-over effects to other local companies and specifically, what are the effects on the position of local SMEs (suppliers, buyers, competitors, etc.) towards (foreign) competitors?
24. To what extent were DGGF instruments complementary to existing or those of other development partners, and to what extent have beneficiaries DGGF funded instruments also been assisted by other agencies, donors, private investors, stakeholders (coherence, synergy); before, during or after the DGGF funded intervention?
25. Which important unintended positive or negative side effects took place, during or as a result of the DGGF funded project, transaction or IF?
26. How does the investment relate to the number of directly and indirectly targeted beneficiaries?
27. What can be said about the efficiency or cost-effectiveness of the DGGF funded interventions or intermediaries?
28. How do costs per service and per realised extra unit of (added) export/trade/employment creation etc. compare to those of other non-DGFF funded instruments or intermediaries?
29. What is the revolving capacity of the three main DGGF instruments?
30. What can be said about the effect (and possible impact) of the redisbursements of revolved funding (to what extent have the intended beneficiaries been addressed)?
31. Do the intended effects of the supported intermediaries and ultimate beneficiaries remain in place after completion of the intervention?
32. To what extent are activities taken over by the market/does the DGGF contribute to increasing access to finance for SMEs (in low- and middle-income countries)?
33. Have the CSR principles (OECD/IFC) been applied well by the participating companies?
34. Have there been spill-overs to other (local) companies in terms of adaption of CSR principles?
35. Are there any positive and/or negative (side-effects as a result of the implementation of CSR principles?

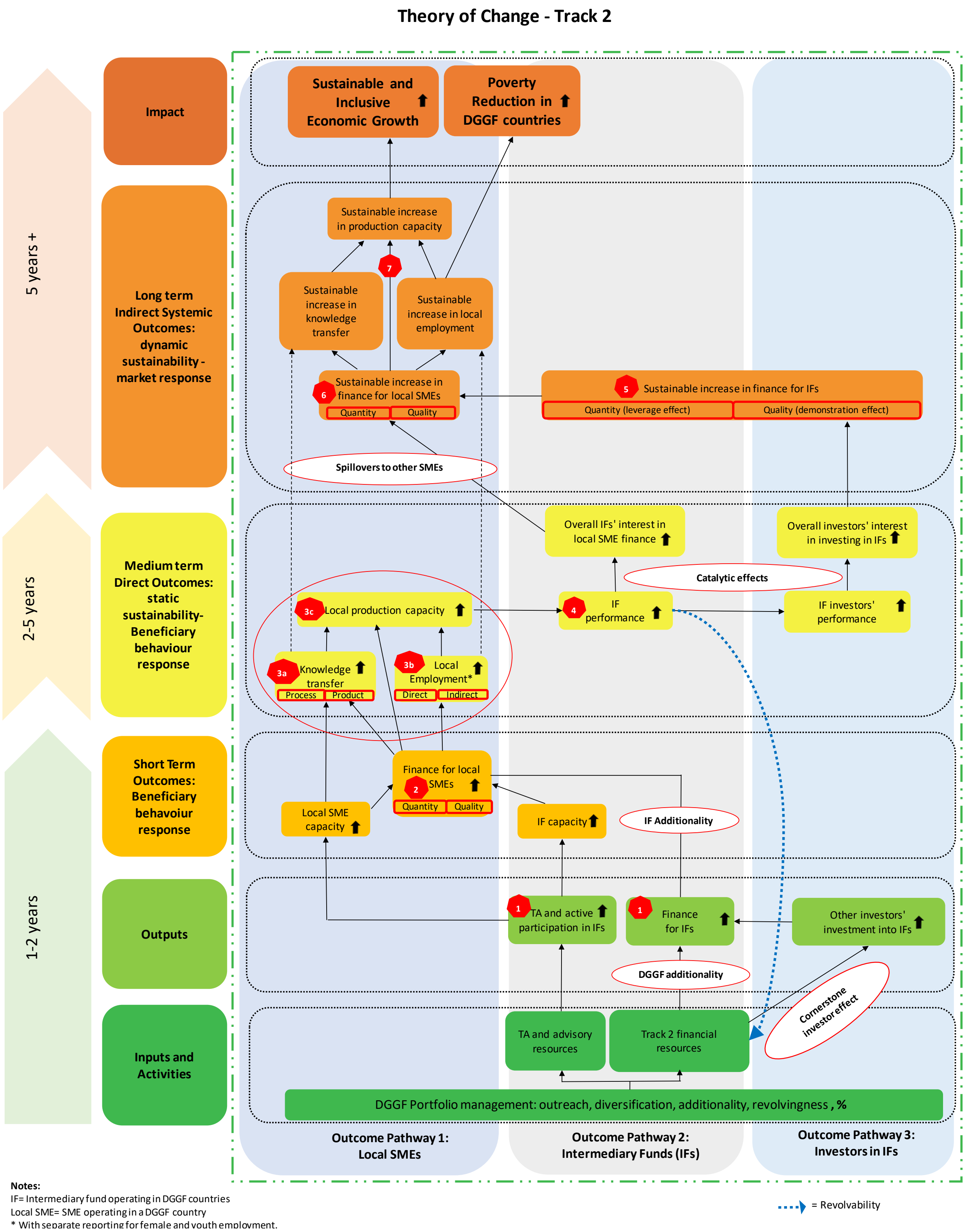
Annex 2: Theories of Change

Theory of Change - Track 1

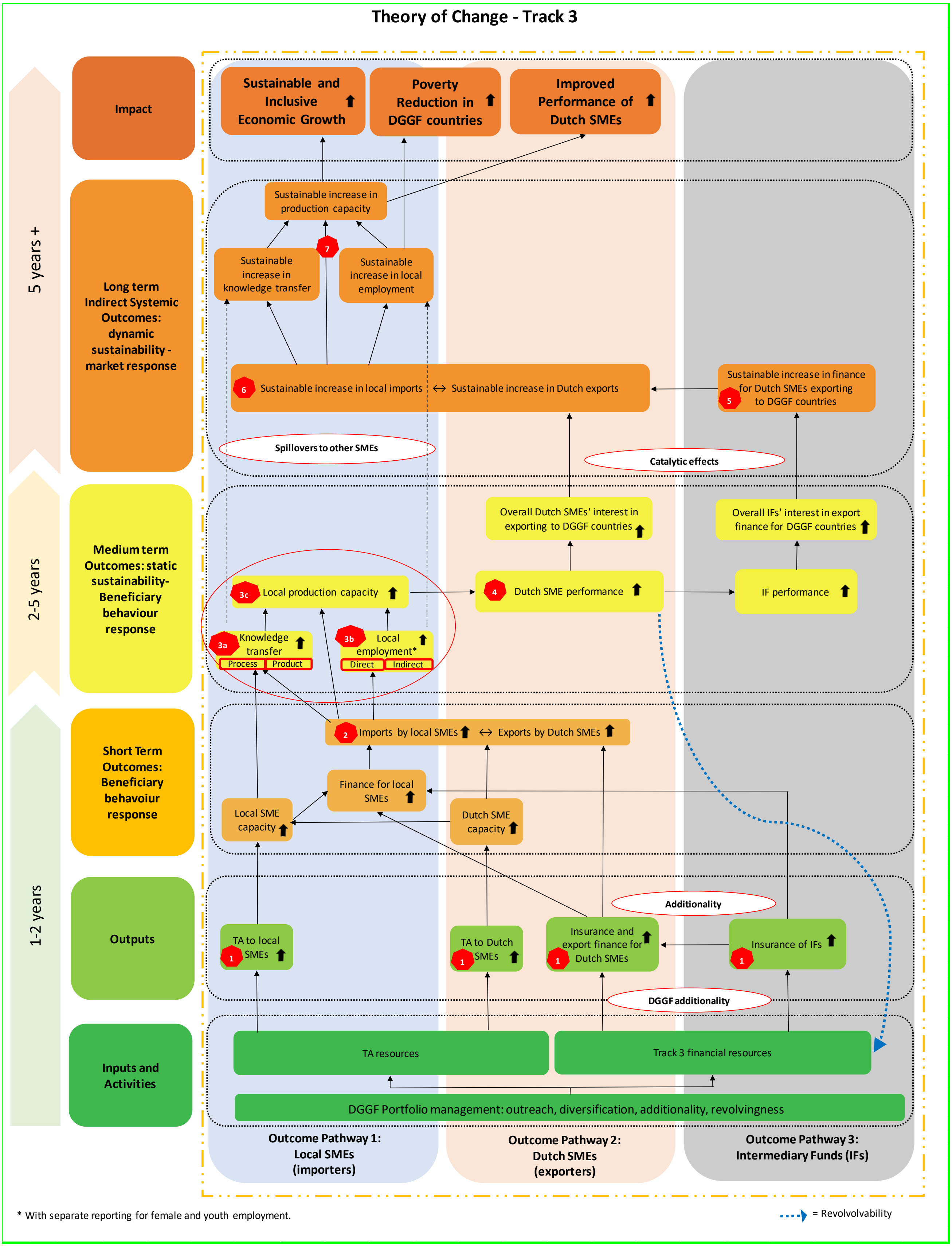


* With separate reporting for female and youth employment.

= Revolvolvability



Notes:
IF= Intermediary fund operating in DGGF countries
Local SME= SME operating in a DGGF country
* With separate reporting for female and youth employment.


Theory of Change - Track 3
5 years +
2-5 years
1-2 years
Impact
Long term Indirect Systemic Outcomes: dynamic sustainability - market response
Medium term Outcomes: static sustainability- Beneficiary behaviour response
Short Term Outcomes: Beneficiary behaviour response
Outputs
Inputs and Activities
Sustainable and Inclusive Economic Growth
Poverty Reduction in DGGF countries
Improved Performance of Dutch SMEs
Sustainable increase in production capacity
Sustainable increase in knowledge transfer
7
Sustainable increase in local employment
6 Sustainable increase in local imports ↔ Sustainable increase in Dutch exports
Sustainable increase in finance for Dutch SMEs exporting to DGGF countries
5
Spillovers to other SMEs
Catalytic effects
Overall Dutch SMEs' interest in exporting to DGGF countries
Overall IFs' interest in export finance for DGGF countries
3c Local production capacity
4 Dutch SME performance
IF performance
3a Knowledge transfer
Process
Product
3b Local employment*
Direct
Indirect
2 Imports by local SMEs ↔ Exports by Dutch SMEs
Finance for local SMEs
Local SME capacity
Dutch SME capacity
Additionality
TA to local SMEs
1
TA to Dutch SMEs
Insurance and export finance for Dutch SMEs
Insurance of IFs
DGGF additionality
TA resources
Track 3 financial resources
DGGF Portfolio management: outreach, diversification, additionality, revolvingness
Outcome Pathway 1: Local SMEs (importers)
Outcome Pathway 2: Dutch SMEs (exporters)
Outcome Pathway 3: Intermediary Funds (IFs)
* With separate reporting for female and youth employment.
= Revolvability

Itad is a global organisation. Our strategy, monitoring, evaluation and learning services work to make international development more effective. We generate evidence on important issues – from malnutrition to migration – to support our partners to make informed decisions and improve lives.

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