

The Internalization of Blended Finance in Danish Development Assistance

An explorative study of Danish development assistance's change towards blended finance

MINISTRY OF FOREIGN AFFAIRS OF DENMARK
DANIDA | INTERNATIONAL
DEVELOPMENT COOPERATION



INVESTMENT FUND FOR
DEVELOPING COUNTRIES

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Abstract

Development cooperation has undergone dramatic changes in recent years. The international paradigm for development cooperation have moved from a conception of tied aid emphasizing close partnerships between donor - and recipient governments to a conception in which mobilization of private sector investments takes center stage. Danish development cooperation has adopted this new paradigm, encapsulated by the use of blended finance. As of now this change in the Danish development cooperation landscape and its implications have not been described in the literature. Neither has the international emergence of blended finance in any theoretical terms. This thesis explores some of these open questions by investigating the changes that has occurred in the two central organizations of Danish development assistance, Danida and IFU, towards the use of blended finance. As so little knowledge on this area currently exist, this thesis provides an exploratory study with the purpose of generating a better understanding of the change that has occurred, and how it can be understood, to strengthen the starting point of future research. Drawing on a theoretical backbone rooted in sociological institutionalism this thesis provides a qualitative account of these changes and how they can be explained by utilizing interview and document data.

A broad analytical framework is extrapolated from sociological institutionalism yielding perspectives at the international level, the organizational field, and at the agent level respectively. The first perspective explains the increased use of blended finance as an outcome of the diffusion of international aid paradigms to the national context. The second perspective explains IFU's increased use of blended finance as an outcome of IFU's embeddedness in the Danish private sector field. Additionally, it explains that a legitimacy crisis in Danida coupled with an institutionalized practice of outsourcing made the transfer of programs to IFU a viable strategy. The third shows how the organizational partnerships between IFU and a group of pension funds have determined the model for Danish blended finance going forwards in a structure akin to private-equity funds. When considering the essence of the explanations as they are accounted for by the three analytical frameworks, we find that the core explanation for the changes towards blended finance in Danish development assistance is IFU and Danida's quest to maintain and enhance their legitimacy as organizations engaged in development assistance.

List of Abbreviations

AIB	Arab Investment fund
BoP	Balance of Payment
B2B	Business to Business
CEO	Chief Executive Officer
COP15	Climate Change Conference, Copenhagen
DI	Confederation of Danish Industry
DBF	Danida Business Finance
DBP	Danida Business Partnership
DAF	Danish Agribusiness Fund
DCIF	Danish Climate Investment Fund
DAC	Development Assistance Committee
DFI	Development Finance Institution
GPG	Global Public Goods
GNI	Gross National Income
IIP	IFU investment partners
IFM	Innovative financing mechanism
IMF	International Monetary Fund
IØ	Investment fund for Central and Eastern Europe IØ
IFU	Investment Fund for Developing Countries
LDC	Least Developed Country
LMIC	Lower Middle Income Country
MIC	Middle income countries
MDG	Millennium Development Goals
MFAD	Ministry of Foreign Affairs Denmark
NGO	Non-governmental organization
ODA	Official Development Assistance

OECD DAC	Organization for Economic Co-operation and Development's Development Assistance Committee
PBU	Pensionskassen For Børne- Og Ungdomspædagoger
PRSP	Poverty Reduction Strategy Paper
PE	Private Equity
PDP	Project Development Program
PPP	public-private partnership
SME	Small to medium sized enterprise
SSC	South-South cooperation
Sida	Styrelsen för internationellt utvecklingssamarbete
SDGs	Sustainable Development Goals
TA	Technical Assistance
Busan	The 2011 Busan High Level Forum on Aid Effectiveness
DIIS	The Danish Institute for International studies
Addis Ababa	UN Financing for Development Conference of Addis Ababa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WEC	World Economic Forum

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1.0 Introduction

1.1 Paradigmatic change in development cooperation

Development cooperation has recently undergone paradigmatic change. Donor states face increased demands to finance the 2030 Agenda and a growing pressure to couple financing with development impact. Blended finance, defined as *the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries*, is gaining traction as the key path towards growing development aid (Carter, 2015; Mawdsley, Savage, & Kim, 2014; OECD, 2018; 3; OECD & WEC, 2015; Runde, Willem te Velde, Savoy, Carter, & Lemma, 2016). The blended finance movement represents a growing emphasis on the increased involvement of private investors in the provision of development aid, as well as it constitutes a legitimization of interest-based development policy (Ibid.). The blended finance movement therefore breaks with the aid paradigm of the Paris Declaration that embodied the abandonment of tied aid while emphasizing close partnerships between the donor – and recipient governments (Andersen & Therkildsen, 2007; Janus, Klingebiel, & Paulo, 2015; Mawdsley et al., 2014)

The change in aid paradigm is not only evident in global governance frameworks, it is also reflected in Danish development policy that is currently expanding the scope and scale of its blended finance activities (Danida, 2017). This ramp-up parallels rapid cut-backs in traditional development assistance budgets; from 2015 to 2016, the Danish development cooperation and humanitarian assistance budget was cut by 21 per cent (Jespersen, 2018) The immediate outcome is a reconfiguration of the organizational dynamics of the organizations that are responsible for carrying out Denmark's development efforts. While the Danish development cooperation agency, Danida, is increasingly outsourcing aid modalities to the Investment Fund for Developing Countries (IFU), IFU is rapidly growing its investment volume while expanding its collaboration with a group of Danish pension funds.

IFU's blended finance activities has awarded it with a reputation of being a frontrunner in the application of blended finance (Kruse, 2018; Nørgård, 2018; Möger, 2018). IFU's reputation has raised

our curiosity as to how, why, and under what conditions national development organizations adopt and discard international aid paradigms in their own national development policies.

1.2 Our ambitions with understanding and explaining change in Danish development assistance

However, first of all, no practitioner or academic research has uncovered the change in Danish development assistance towards the increased use of blended finance. Second, the development aid literature has not engaged with the conditions under which national development organizations adopt and discard aid paradigms. This is a problem because blended finance is understood to have transformative potential in the way we perceive and perform development assistance, which implies a current and ongoing transformation in Danish development assistance that no one is paying attention to. In addition, we must develop a nuanced understanding of the motives of national aid agencies in their adoption of aid paradigms before we can thoroughly understand the causes for their performance in promoting development in poor and fragile states.

Thus, our ambition with this thesis is first of all to uncover the changes that are happening in Danish developing assistance towards blended finance. An accessible account of the changes towards blended finance will give stakeholders, practitioners, and academics access to understand the extent and character of the change Danish development assistance is currently undergoing. Even though we do not develop or express our own opinion on this development, our hope is that our account of changes will function as an invitation to the public to critically develop an informed opinion on this development. Second, in providing a theoretically grounded explanation for the increased use of blended finance in Danish development assistance, our ambition is to develop an understanding for what factors that determine the adoption of a new aid paradigm in a national context. Our ambition is that a theoretically grounded explanation will give a more nuanced picture of the interplay between moral and interest in the development of aid modalities within a national context. In addition, our ambition is to equip practitioners with greater self-awareness of the motives that guide their construction and implementation of aid modalities. We pursue our ambitions by posing and answering the following research question:

What are the changes towards blended finance in Danish development assistance, and what can explain these?

We approach our research question through the application of an exploratory case study. We choose the exploratory case study, because, as stated above, there is a lack of prior knowledge of change towards blended finance, and because we seek an in-depth understanding of Danish development assistance's use of blended finance. We will go about answering our research question by conducting a two-fold analysis. First, we uncover changes towards blended finance in Danish development assistance by an assessment of the objective changes in Danish development assistance that we can observe. Second, we provide an explanation for why those changes have occurred. We do so by developing three analytical frameworks from the theoretical tradition of sociological institutionalism and applying them to the changes we observe in order to generate an explanation for them. We choose sociological institutionalism because it is well adept to the study of organizational behavior and organizational change, and because it enables us to generate broad frameworks that guide our exploratory study without impeding it. In addition, contributions with the current literature of sociological institutionalism has called for applying sociological institutionalism on development aid communities to improve our understanding of this empirical area (Moe Fejerskov, 2016).

1.3 Structure of the thesis

The structure of this thesis consists of ten chapters. **Chapter 1**, the current chapter, serves as introductory chapters and introduces our research topic and research question. **Chapter 2** provides a description of our case organizations, Danida and IFU. **Chapter 3** accounts for our methodological approach to answering our research question. **Chapter 4** provides a literature review of the research agenda on development cooperation and financing for development. The purpose is to discuss and provide the reader with an understanding of how the literature accounts for and explains change in development policy. **Chapter 5** provides a literature review of sociological institutionalism purposed with discussing and providing the reader with an understanding of how the sociological institutionalist tradition explains organizational change. **Chapter 6** introduces our analytical framework by

distinguishing core perspectives of sociological institutionalism and developing an analytical framework than can approach the research question from different perspectives. **Chapter 7** account for, and assesses, the changes that we can observe towards the increased use of blended finance in IFU and Danida. **Chapter 8** directly applies the three different perspectives inherent in our analytical framework in turn. This will show how we can understand and explain the changes towards blended finance in IFU and Danida identified in the previous chapter. **Chapter 9** concludes on our findings. **Chapter 10** discusses the implications of our research.

2.0 Danish development assistance

2.1 The purpose of Danish development assistance and its organizations

The purpose and instruments of Danish development assistance is managed on the basis of the Danish Act on International Development Cooperation (Lov om internationalt udviklingssamarbejde, 2012). The current act has been in force since 1st January 2013 and specifies the purpose of Danish development assistance to be fighting poverty and promoting human rights, democracy, sustainable development, and peace and stability (Lov om internationalt udviklingssamarbejde, 2012). Two organizations are directly purposed with fulfilling the objectives of Danish development assistance. The first one is the Danish development agency, Danida, that sits within the Ministry of Foreign Affairs Denmark (MFAD). The second is the Investment Fund for Developing Countries (IFU), which is a state-owned but self-governing organization. Hence, these two organizations make up Danish development assistance (Ibid.).

2.2 The Ministry of Foreign Affairs and Danida

Danida is the Danish development agency. It is an independent area of activity under the MFAD (MFAD, 2018a). However, its activities are carried out in different departments and centers of the MFAD. Figure 2.1 depicts a simplified organigram of the MFAD (MFAD, 2018b). The department and centers that carries out Danida activities are colored red. However, *Center for Global Development and Cooperation* is where the vast majority of Danida activities are carried out (Ibid.). Since the unit of analysis of this thesis is Danish development assistance, when assessing changes in

Danida, we therefore focus on the Center for Global Development and Cooperation of the MFAD. Two specific departments within Center for Global Development and Cooperation is of special interest to our thesis. This is so, since we seek to uncover the increased use of blended finance in Danish development assistance. Blended finance raises capital to finance development and is hence part of the policy area that we can coin development finance. Therefore, we focus on those areas of Danida's activities that focus on development finance. Two areas of activity within *Center for Global Development and Cooperation* is subsequently of relative interest to us. This is *Development Policy and Financing* as well as *Growth and Employment*(MFAD, 2018). While *Development Policy and Financing* undertakes activities related to the broader strategy in accordance with the Finance Act and international coordination, the *Growth and Employment* department undertakes activities related more directly to development finance. It undertakes the Danida Business instruments and pools, activities related to the mobilization of private financing, as well as strategy development, monitoring and communication of Danida Business Finance (DBF) and The Investment Fund for Developing Countries (IFU) (Ibid.).

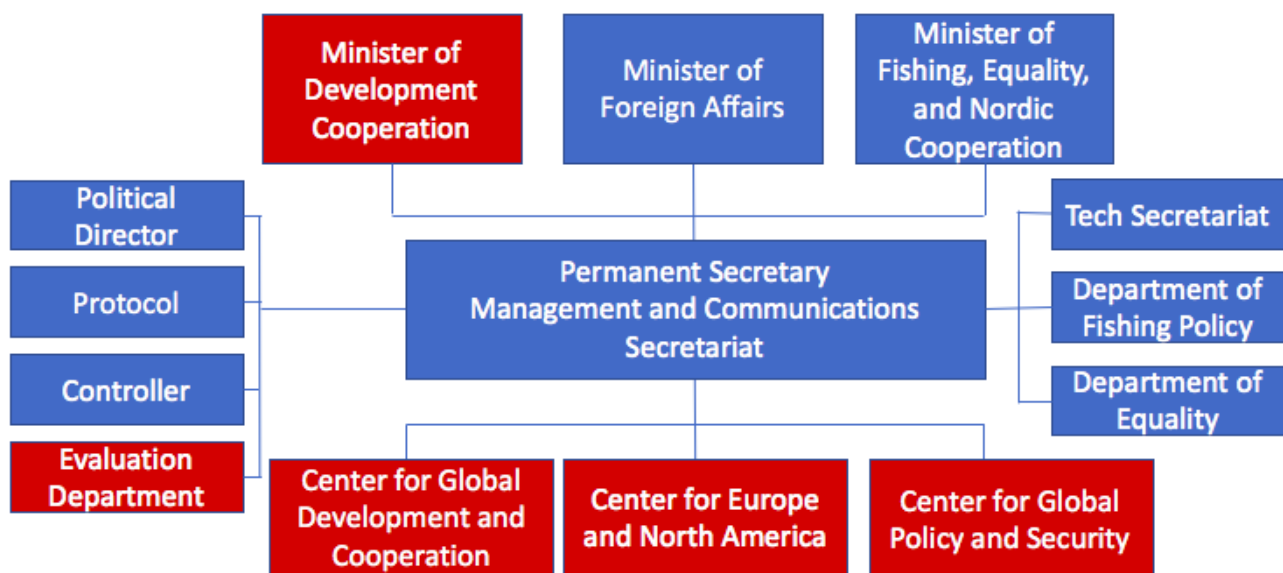


Figure 1 Simplified organigram of the Danish Ministry of Foreign Affairs, Copenhagen Office. Departments and centers that carries out Danida activities are colored red(MFAD, 2018)



Figure 2 Organigram, Center for Global Development and Cooperation (MFAD, 2018)

2.3 The Investment Fund for Developing Countries

The Investment Fund for Developing Countries (IFU) is an independent state-owned fund with legal personality and limited liability (The IFU Board, 2017). IFU is controlled by its Board of Directors consisting of ten members. The MFAD holds a supervisory position on the Board. Its current Chief Executive Officer is Tommy Thomsen. According to the Act on Denmark's International Development Cooperation, §9, item 1, the purpose of IFU is to promote investments that support sustainable development in developing countries and contribute to achieving the Sustainable Development Goals (the SDGs) (Lov om internationalt udviklingssamarbejde, 2012; Lov om ændring af lov om internationalt udviklingssamarbejde, 2016; The IFU Board, 2017). The Fund fulfills this purpose through direct or indirect investments in developing countries. The investments are made in the form of share capital, loans, guarantees, or other instruments deemed to have a positive effect on local sustainable business development and other investments which promote the purpose of the Fund (The IFU Board, 2017). In IFU parlance, these forms of financing go under the common denotation of risk capital and are offered along with advice and guidance. IFU, as well as the funds IFU manages, will exclusively provide risk capital on a commercial basis (IFU, 2018b). This means that IFU and IFU managed funds only enter into projects that are likely to be commercially viable, and that IFU will share the investment risk and revenues with its partners (Hansen, 2011).

IFU can invest in countries listed on the OECD Development Assistance Committees (DAC) list of countries eligible to receive official development assistance (ODA). This enables IFU to invest in 146

countries (IFU, 2018b). However, IFU must invest at least half of its annual investment amount (the target is calculated over moving three-year period) in low-income countries. According to World Bank classification, a low-income country has a gross national income (GNI) per resident of 80 per cent or less of a lower middle-income country (Ibid.). In 2016, this limit was USD 3,300 (2014 level)(MFAD, 2017b).

Besides its IFU classic investments, IFU is a fund manager of a number of investment funds, namely Danish Agribusiness Fund (DAF), Danish Climate Investment Fund (DCIF), IFU Investment Partners (IIP), the Arab Investment Fund (AIB), and the Investment Fund for Central and Eastern Europe (IØ). Additionally, IFU is in the process of developing the SDG-fund, a fund purposed with mobilizing capital to achieve the SDGs (MFAD, 2016a).

[2.4 The organizations of Danish development assistance and their relation](#)

Thus, we understand Danish development assistance as consisting of two organizations, Danida and IFU. IFU is self-governing and the MFAD exclusively holds a supervisory position on the Board. Yet, the Danish state is still the owner of IFU and the Danish Act on International Development Cooperation provides the broad guidelines that condition IFU's behavior. In addition, the yearly Finance Act stipulates the Danish state's contribution to IFU's activities(Regeringen, 2017). Therefore, we map the organizational landscape of Danish development assistance and their relationship with a dotted line between IFU and the MFAD/ Danida. We also wish to emphasize the that while the MFAD and Danida are directly politically controlled, IFU constitutes a semi-autonomous organization. Thus, we can understand the structure of and relation between the organizations that make up Danish development assistance as depicted in figure 2.3 below.

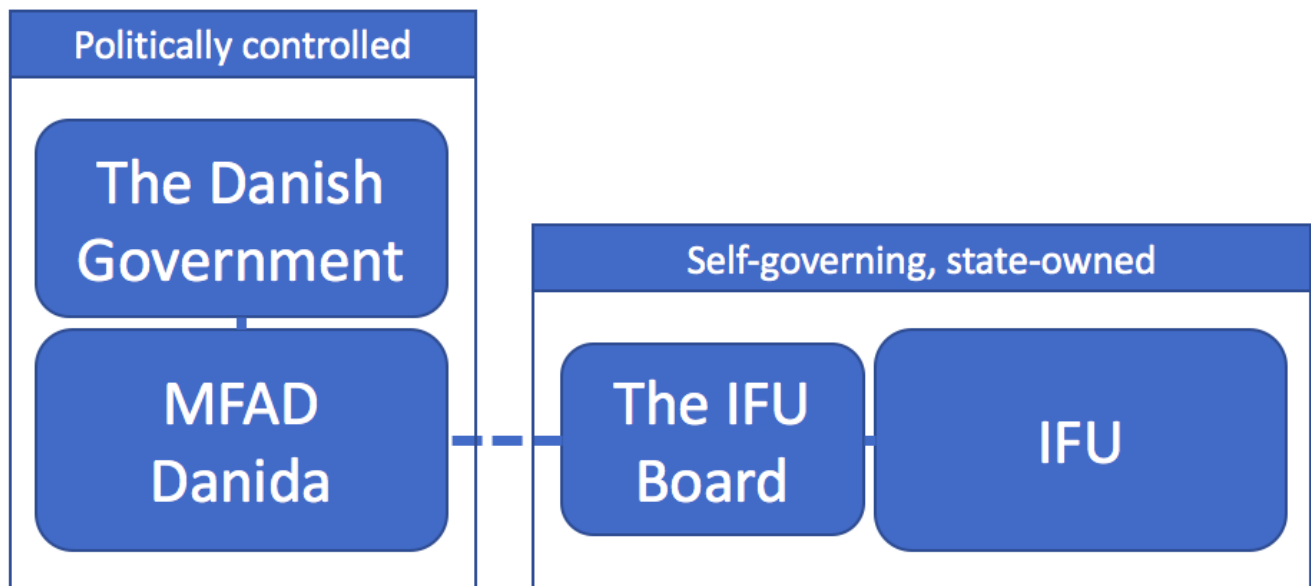


Figure 3 Map of the Danish development assistance organizations and their relation, own construction

3.0 Research philosophy, methods, and their implications

3.1 Research philosophy

The purpose of this section is to provide an understanding of the research philosophy, approach, and research design used in our thesis. In addition, this section describes the abilities and limitations of our thesis that are a natural consequence of our choice of methodology and methods. Research philosophy is based in the ontological and epistemological understanding related to the nature of knowledge and the development of knowledge (Saunders, Lewis, Thornhill, 2016). Ontology is concerned with the fundamental nature of a studied phenomenon; while epistemology is concerned with what composes acceptable knowledge in a field of study (Marsh & Furlong, 2002; Saunders et. al. 2007; Moses & Knutsen, 2012). We can understand positivism and constructivism to span a spectrum of ontologies and corresponding epistemologies.

3.1.1 A moderately constructivist ontology

The purely constructivist ontology perceives the world as existing of discourse and language and thus reality is entirely contingent upon social settings, ideas, and thoughts (Moses & Knutsen, 2012). At the other end of the spectrum, the positivist ontology understands the world to exist entirely independent of how we observe and understand it. Our research questions ascribe to a moderately

constructivist ontology. This implies an ontology that is constituted by the interaction of social constants and the human cognitive understanding of society. Hence, our ontology accepts that some constants may exist independent of how we understand it. Indeed, the first part of our research question asks: *“What are the changes towards blended finance in Danish development assistance?”*. In asking this research question, we purpose our theses with uncovering those changes towards the increased use of blended finance that we can observe and thus examine in an objective manner. Subsequently, we adopt some characteristics of positivism. Yet, since the second part of our research question asks, *“... and what explains these (changes)?”*, we add an additional purpose of explaining the ideas, culture, and norms that inform the perceptions of the social world that surrounds and interacts with observable change. As engaging with ideas, culture, and norms is a tenant of the constructivist ontology, we arrive at a moderately constructivist ontology.

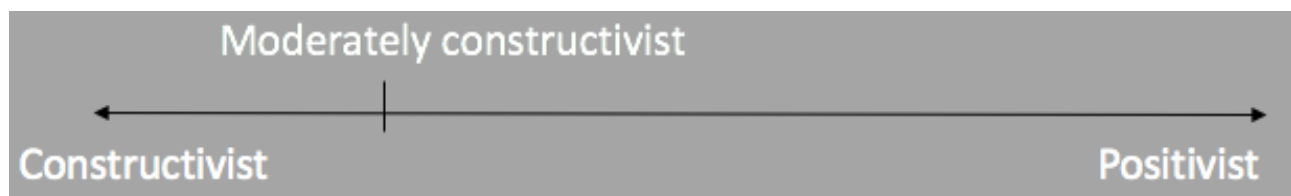


Figure 4 The spectrum of ontologies and corresponding epistemologies. This thesis adopts a moderately constructivist ontology. Own construction.

Even though the combination of positivist and constructivist ontological understandings might appear contradictory, Saunders (2009) argue that the combination is both possible and sometimes more appropriate if *“the research question does not suggest unambiguously that either a positivist or interpretivist philosophy is adopted”* (Saunders, 2009; 109).

3.1.2 A self-aware epistemology that accepts both qualitative and quantitative data

Given our moderately constructivist ontology, both quantitative and qualitative data shall be included in answering our research question. While both quantitative and qualitative data helps us uncover observable change, we will exclusively use qualitative data to explain change. This is so, because we need to understand perceptions of the social world as it is embedded in the ideas, norms, and culture of the involved agents. In order to acquire information, we need to observe events, actions, and conditions. However, it is impossible to observe and explain phenomena in an entirely objective and

inductive manner (Moses & Knutsen, 2012: 155). Thus, we need to be aware of the presuppositions we make and how they are contingent upon our needs and interests (Ibid). This implies that we are not, as human beings, able to pursue an answer to our research question before theorizing about it. This is so, since we need guidance for data collection. Therefore, we stress our awareness that our prior knowledge directs the path for the acquisition of new knowledge. Our epistemology thus accepts that knowledge is not independent of presuppositions and ideas. As a result, it can never be entirely objective. Yet, awareness of our own biases and transparency in how we approach our research to enable the readers to draw their own informed conclusions.

3.1.3 A qualitative and exploratory analytical strategy

Given our ontology and epistemology it is scientifically coherent to provide a qualitative account of Danish development assistance. A qualitative account will involve a broad range of actors, institutions, different geographical levels, and will enable us to engage with the underlying intentions, ideas, and rationalities that may explain the change towards the increased use of blended finance. This is coherent with our philosophy of science as it will capture the world – our ontology - that relates to Danish development policy as it was at the time. This thorough account fits with the belief that knowledge is not perfectly cumulative throughout time. Hence, we will provide an account of what was true for that particular time in that particular political and economic setting.

The moderately constructivist position does not fit well with the production of theorized causal relationships to explain certain outcomes that are devoid of a contextual setting (Moses & Knutsen, 2012). This makes the traditional hypothesis testing popular within positivism inherently problematic (Marsh & Furlong, 2002). The use of theory must be different with a constructivist philosophical base. Instead of using theories to create testable causal relations we use theory as a general framework to guide the data collection process and ensure a more systematic approach to answering our research question. The theories we use should thus be understood as an aid to understand Danish development assistance. Whereas theory oftentimes is the end-point and purpose of positivist research (Creswell, 2014; Moses & Knutsen, 2012), this is not the case for us. We apply theory, or

more general frameworks, as the means towards our end – explaining the change towards an increasing use of blended finance in Danish development assistance.

As the background for the recent changes within IFU and Danida have not yet been subject to academic research we do not have access to a lot of prior information on IFU and Danida's change towards the increased use of blended finance. For that reason, this study will be exploratory as we need to identify what Danish development assistance looks like and what is important and what is not (Saunders et al., 2007). Exploratory studies are studies that attempt to find out "*what is happening; to seek new insights; to ask questions and assess phenomena in a new light*" (Robson, 2002 as quoted by Saunders et al., 2007). We apply the exploratory approach because we seek to describe and explain an empirical area that is yet to be described by academic literature. Exploratory studies therefore do not seek to establish conclusive causalities, because they simply do not have enough prior knowledge to know exactly what to look for and subsequently test (Creswell, 2014; Saunders et al., 2007). Our thesis applies an explorative approach towards the objective of describing changes towards the increased use of blended finance as well as to provide a set of different ways of perceiving explanations for this change.

In addition to an exploratory approach this will also be a single-case study. The reasons for this is much the same as the reasons for the exploratory nature of this thesis. Without prior research we have to do more empirical digging and spend more time reaching a well-thought analytical framework than what would otherwise be the case. Engaging in a comparative case study would run the risk of failing to reach useful insights in either of the cases. Single-case studies are concerned with the complexity and particular nature of their case (Bryman, 2016: 62). As one of our central ambitions is to improve the current literature, in which no account of the major changes that have occurred in Danish development assistance in relation to blended finance can be found, a case study on Danish blended finance is the most appropriate.

This relation between philosophy of social science and theory emphasize how important it is to employ theory that is consistent across the philosophical base and method of a study. Every theory implicitly embodies ontological and epistemological assumptions (Creswell, 2014). The theory that will be applied in this paper is coherent with the moderately constructivist position and the methods through which we apply such theory. Having now expanded on our approach to the philosophy of science, we will now account for the specific methods that has been applied for analyzing our data and the methods that has been applied during the process of data collection.

3.2 Method of analysis

The method of analysis is conducted using broad theoretical frameworks that are applied as theoretical lenses upon the data. Constructivist research prefers broader frameworks rather than directly testable theories, which leads to a looser method of analysis hinging upon the researchers' ability to connect data in a thoughtful and reflective way applying their own sense of logic (Moses & Knutsen, 2012). The method of analysis is therefore not as stringent as is typically seen within positivist science. This requires a high degree of transparency in the arguments to allow the reader to follow the reasoning of the researcher and to decide for themselves, on an informed basis, whether the arguments are convincing. This means that we need to contextualize the theories before we know exactly what we are looking for. Rather than looking for a single well specified explanation for a certain outcome the constructivist theory will tell us to look in a less specified direction and provide generic arguments that the researcher must contextualize (Marsh & Furlong, 2002; Moses & Knutsen, 2012).

The use of theoretical frameworks to make sense of the empirical world is a deductive approach as theory precedes the empirical investigation (Moses & Knutsen, 2012). The research process of this thesis has first employed a more inductive approach which then have been followed by the deductive approach in which the analytical framework is fully employed. Mixing inductive and deductive methods can constitute many different valid paths for generating interesting findings when done thoughtfully (Graebner, Martin, & Roundy, 2012). For us the inductive approach has been applied at

the point of the research process in which we have been looking for appropriate theoretical frameworks suitable for our case. This means that we have engaged in some data collection early in the process as we have uncovered the gap in understanding of Danish blended finance. As Karl Popper argues no method can be purely inductive and void of presuppositions (Moses & Knutsen, 2012: 41). In the same vein, we worked only somewhat inductively with the possibility of several different theories in mind early in the research process. At the time where we carried out our first interviews we had chosen the approach of sociological institutionalism, and we proceeded in a deductive manner from there. That entails employing theory to identify areas in which to look for explanations (Moses & Knutsen, 2012). By employing different approaches rooted in the same analytical framework, it becomes easier to see the theoretical advantages and shortcomings of each, and it helps us in being careful and reflective in drawing conclusions from the knowledge these different perspectives yield (Moses & Knutsen, 2012: 229).

Being careful and reflective when judging our results are of the highest importance. Due to the constructivist position, the qualitative nature of the study, and the method of analysis we will not be able to prove or disprove any causal relations. Instead we seek to couple the change we have observed, and want to explain, with the presence of several potential explanatory factors that can also be observed. We can observe the change that have occurred in Danish development finance and we can observe several potential and partial explanations for this change. We seek to put these explanations in a context to validate their appropriateness from a qualitative perspective. Our theory will tell us where to look for the potential presence of these explanations, but the theory will also be applied to account for the relation that might be present between two such observations. This enables us to build an analytical model. The purpose of this paper is to answer our research question which captures the presence of observation A i.e. the change that has occurred in Danish development finance. We aim to do so by identifying the presence of certain factors, B, that can explain this change. We cannot observe how B have caused A, but our theory provides an argument for why we would expect B to lead to A.

When we are applying the model we thus start from the observation of A. But from that point we move backwards, using the theory to identify B before we can engage with the two in depth and evaluate whether B also constitutes a plausible explanation. In our analysis, we will not account for a range of potential explanations that does not fit the empirical observations and does not seem plausible. Instead we will focus on applying our analytical framework to show how well it can account for the change we have observed and want to explain. Only by applying the theory on its own remit will we be able to rightfully evaluate the knowledge and insights it can help generate.

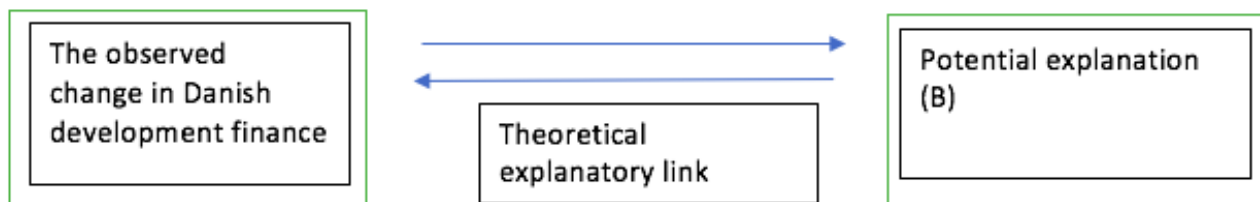


Figure 5 Analytical and explanatory model

The upper arrow from A to B represents the deductive approach of the paper in which we observe a change and apply theory to provide a direction for data collection. The lower arrow represents the explanatory direction in which the theory provides an argument for why B can explain the presence of A.

3.3 Methods

3.3.1 Method of data collection

As we are engaged with the changes that has occurred within Danish development assistance we do not seek data that can be generalized upon a wider population, but rather data that thoroughly represent the case at hand. Our method for data collection can thus be described as purposive sampling (Bryman, 2016). Instead of sampling for probability we collect a sample of data in a strategic manner to ensure data of relevance to our research question (Bryman, 2016: 408).

We are dealing with two broad categories of data: documents and interviews. Our collection of documents, including journal articles, policy papers, strategic concept notes, financial accounts and more, have been collected through the purposive sampling method of snowballing (Bryman, 2016). At first, we collected and read documents in a strategic manner to ensure that they represent the case of Danish development assistance. But as this is not an area in which a lot of prior knowledge exist, we have not been able to identify all relevant documents before collecting them. As we have collected

and read documents we have become aware of new elements, actors and conditions which have shaped the subsequent collection of additional documents. This is snowball sampling as one data point frequently leads the way to the next (Bryman, 2016). This also fits well with this study as being exploratory in the sense that we, at the start of the project, only have a partial understanding of the case and what is relevant in order to answer our research question (Saunders et al., 2007).

Our interview data have been collected in a strategic manner to ensure data that represents the different key actors that are relevant to our research question. We identified three particular groups as being at the center of the changes that have occurred in Danish development assistance: Danida, IFU, and three particular pension funds. We have conducted interviews with each of these, except one of the pension funds, PKA, with which we have not been able to arrange an interview. This means that *“sampling members differ from each other in terms of key characteristics relevant for the research question”* (Bryman, 2016: 408). It is of the highest importance to our research question to engage with each of these three groups. While we do not attempt to assemble a sample from which generalizations can be extracted it has been important for us that our interview participants are able to represent the organization in which they are employed. This representation is achieved partly by interviewing multiple employees, or by interviewing employees that are centrally placed in their respective organization in relation to its involvement in Danish development finance. We have also conducted interviews with people outside of the organizations to obtain an external perspective. While flexibility in research design is valuable it is equally important to be reflective and structured with regards to who should be interviewed to avoid *“undisciplined and haphazard poking around”* without a clear purpose (Seidman, 2006:36). Therefore, we will now briefly account for what we have been looking for with this purposive sampling and how our interview participants fit with the profiles we have been looking for.

3.3.1.1 Danida

In Danida it has been important for us to access people with knowledge of the overall strategic direction of Danida and how that relates to the changes that have taken place. As the head of the *Centre for Global Development and Cooperation*, Morten Jespersen is one of the highest ranked

Danida officials involved in such overall strategies. Additionally, Danida employees that are involved with the private sector programs, contact to IFU, and knows about the programs that have been transferred from Danida to IFU are very valuable interview subjects. Jørn Olesen and Morten Elkjær provides for two of the most central individuals in this regard. Morten Elkjær figures in this description as he, as the head of Danida Business Finance was transferred from Danida directly into a position as Vice President in IFU.

3.3.1.2 IFU

In IFU we are interested in people who holds extensive knowledge about the changes that have been ongoing in IFU. In addition, it has been a purpose to explore some of the underlying reasons behind the new strategic direction of IFU. All three interview participants, Rune Nørgård, Morten Elkjær, and Max Kruse are in a position to provide deep insights into this. It has also been a strong desire to interview IFU employees involved in the new fund structure where pension funds also take an important role. As Vice President of DAF, Max Kruse has been an ideal interview participant in this regard.

3.3.1.3. Pension funds

For interviewing pension funds, we have been looking for employees directly involved in the pension funds business with IFU. As Head of Environmental, Social, and Governance Affairs in PBU Rasmus Juhl Pedersen is central, because he takes decisions regarding PBUs involvement with IFU. Chief Executive Officer, Torben Möger Pedersen is the ideal interviewee in PensionDanmark, as he is ultimately responsible for their strategy and sits in the investment committee of both DCIF and DAF.

It goes for all our interviews within these three groups that the more centrally placed and high ranking an interview participant is, the more reliable our data becomes. This is so, since the changes that we seek to uncover has happened on a high strategic level within the organization. These characteristics means that the individuals are, and have been, important decision makers in relation to the changes we are investigating. With such characteristics, they are the exact people whose ideas, norms, and perceptions we are interested in as data for explaining the change that has taken place.

3.3.1.4 External interview participants

External to those three groups we have been looking for interview participants who could contribute with general perspectives from the Danish private sector and expert knowledge that can provide an external perspective on the changes and current state of Danish blended finance. Marie Gad, as Head of Strategy and Organizational Development within development finance in the Confederation of Danish Industry, provided the first perspective. Magnus Cedergren provided the second, as he is well positioned to provide the external expert perspective due to his 20 years of experience in Danida's Swedish sister-organization, Styrelsen för internationellt utvecklingssamarbete (Sida).

3.3.2 Interview Approach

We have approached our interviews as expert interviews recognizing the relative balance of authority between our interviewees as highly positioned government officials and ourselves as students. This entails thorough preparation, since we do not want our interviewees to feel like they are wasting their time accounting for information that can easily be found elsewhere (Bryman, 2016). This also fits with our own purpose as we want to be able to extract the best possible information from each interview which requires prior knowledge so appropriate and interesting questions can be posed (Seidman, 2006).

The interviews have been semi-structured, because it supports our purpose in enabling thoroughly prepared questions while also allowing the exploration of new perspectives on the change that has taken place, and how it can be explained, as they arise during the interviews (Seidman, 2006; Bryman, 2016). We have prepared interview-guides for each interview but have also applied probing and pursued different directions during the interviews as new information and perspectives emerge. As our data collection has been somewhat exploratory, we have been able to continuously improve our interview-guides as our knowledge on the subject has improved. As potential theoretical explanations have emerged we have been able to incorporate these into our interview-guides and the questions we pose. This is not to say that we have asked our interview participants any questions directly related to our theories - we have not. Such leading questions would raise serious doubts about validity of the data (Seidman, 2006). But we have become better at examining the likelihood and empirical fit with our tentative theoretical explanations throughout the interviews we have

conducted. This is in line with an exploratory approach in which the researcher should be able to alter his direction as a result of new data and new insights (Saunders et al., 2007).

We have obtained explicit consent from each interview participant to record, transcribe and apply the interviews as data for this study. Our transcriptions have subsequently been validated by our interviewees. We applied a loose approach to data saturation as the basis for when to stop conducting additional interviews (Bryman, 2016: 417). After we had covered the different groups relevant for our research questions we stopped conducting additional interviews once the content of additional interviews became somewhat predictable. This suggests that we have reached data saturation and that the value of additional interviews have significantly decreased (Bryman, 2016).

Name	Organization	Position	Date	Length
Max Kruse	IFU	VP of Agribusiness	20/02/2018	68 min
Morten Elkjær	IFU	VP of Finance	20/02/2018	53 min
Rune Nørgaard	IFU	Communications Director	27/02/2018	53 min
Jørn Olesen	Danida, MFAD	Chief consultant, Department for Growth & Employment, MFAD	20/02/2018	69 min
Morten Jespersen	Danida, MFAD	Head of Centre for Global Development & Cooperation, MFAD	06/03/2018	49 min
Torben Möger	PensionDanmark	CEO	06/04/2018	29 min
Rasmus Juhl Pedersen	Pædagogernes Pensionskasse	Head of ESG	14/03/2018	48 min
Magnus Cedergren	Niras	Senior Advisor Development Finance	05/04/2018	67 min
Marie Gad	Dansk Industri	Head of Strategy and Organizational Development	06/03/2018	31 min

Table 1 Table of interview participants

3.3.3 Data reliability

We triangulate our data by cross-examining the secondary sources of our document data and the primary sources of our interviews (Bryman, 2016: 386). This process yields greater confidence in our findings (Ibid), as it enables us to evaluate the coherence between academic work, public documents, and the reasoning of the practitioners we are investigating. The triangulation not only refers to the different types of data, but also the different sources of data (Saunders et al., 2007:167). We employ a multitude of different sources including academia, international organizations, national public

agencies, and various private sector organizations. In the same vein, we have conducted interviews with people directly involved in Danish blended finance and experts on the subject that are external to the inner working of Danish blended finance, to qualify our data and improve its reliability.

A challenge of working with interview data is the possibility of participant bias rooted in organizational pressures upon the interviewee to present a certain picture of reality (Saunders et al., 2007:149). This issue can be overcome either by conducting interviews anonymously or under agreements of confidentiality. As several of our interview participants work in politically sensitive environments, we have afforded confidentiality to those who expressed their desire for this insofar as their interview transcripts are admitted separately and under confidentiality. Needless to say, the information these individuals have provided will not be quoted but have still informed the analysis in accordance with the approved transcription to improve the content validity of this thesis. This concerns Jørn Olesen, Morten Elkjær, and Morten Jespersen.

Another potential issue with interview data is bias through retrospective sense making in which the interviewee over-interprets issues in retrospect (Eisenhardt & Graebner, 2007:28). A strategy for overcoming this is the strategic sampling of interviews to ensure the participation of highly knowledgeable participants viewing the focal phenomenon from diverse perspectives (Ibid). As we have accounted for above our interview participants are among the most knowledgeable practitioners of blended finance in Denmark, and they inhabit a diverse set of organizations that are engaged with this. We thus improve the reliability of our data through triangulation, purposive sampling strategies, and the offer of confidentiality to limit participant bias.

3.4 Implications of the methodology

The methodology we have outlined brings with it many advantages, but also some significant limitations which are important to bear in mind, as we answer our research question. As we investigate a single case, IFU and Danida changing towards the use of blended finance, we have an approach that is *“generally better than the alternatives for documenting processes”* (Odell, 2001:170).

Through this approach we can uncover general tendencies of blended finance that might stretch beyond its Danish context, as well as Danish idiosyncratic features.

As stated by Graebner et al., (2012:279) *“The fundamental advantage of qualitative data for investigating process phenomena is its richness, which enables researchers to unpack multifaceted, temporally unfolding mechanisms in a detailed and sophisticated manner”*. This is one of the fundamental abilities we wish to obtain through our specific methodology. As the literature currently lacks a thorough understanding of the changes towards blended finance in Denmark, being able to describe this change through rich qualitative data is a key purpose of this thesis. Generating a better understanding of the current state of Danish blended finance is particularly valuable for practitioners finding themselves in this field undergoing rapid transformation. By employing a methodology that engages closely with the processes of change we can uncover dynamics in Danish development assistance that have not previously been described. This is not just a core purpose of our research question, but also an important contribution to the literature on development cooperation that currently cannot account for the increased use of blended finance.

We will not be able to directly generalize our results regarding Danish changes to other national contexts as we do not control for variables as in positivist research (Moses & Knutsen, 2012). We would like to see studies that does so, but we also have to work within the confines of what we currently know. As our subject matter is not well understood it becomes imperative to document, before we can analyze, compare, and generalize (Odell, 2001). Our methodology enables thorough documentation and an analytical dimension, but alone it will not be enough to enable comparison and generalization. Specifically, we will produce insights into how IFU and Danida generate their policies. What factors and pressures that are part in shaping their behavior and the practices they engage in. While these are not directly generalizable they do provide qualified suggestions as to what might be important for similar organizations in other national contexts. This thesis can thus become a stepping-stone for additional research into this area to investigate the extent to which the same mechanisms are present in other jurisdictions. As this thesis currently represents the only study on

how and why public agencies are picking up on blended finance our results will also be the best-guess at what mechanisms that might be in place in other countries experiencing similar change. In that vein, this is also a modest theoretical contribution insofar as it provides infant theoretical suggestions to the mechanisms at play. Fitting with the purpose of exploratory research (Saunders et al., 2007) our approach does not provide the ability to prove or disprove causal relations, but it can create a better starting point for researchers that wish to pursue the avenue of blended finance and/or Danish development policies.

4.0 Literature review of aid markets and its modalities

This literature review will critically assess the research agenda on development cooperation and financing for development. The purpose is to discuss how the literature accounts for and explains change in development policy. Understanding how the literature has treated research topics similar to our own will aid us in answering our research question. This is so, first, since the literature provides us guidance in our exploratory observations of change in IFU and Danida towards the increased use of blended finance. Second, the literature review provides us with a language, logics, and concepts that we can use to explain the change towards the increased use of blended finance that we observe in IFU and Danida. This literature review will take a starting point in a discussion of the global aid system and its evolvement, after which we will move into a narrower discussion of the interpretation of current movements in the global aid system. Finally, we will move into a discussion on blended finance, which is currently emerging as a dominant development finance instrument. We will end the section with a conceptualization of the new dominant aid paradigm, the development effectiveness paradigm.

4.1 The market for aid

Sumner & Mallet (2013) conceptualize the global aid system as a market characterized by factors that determine demand and supply of aid products embedded in a political economy (Sumner & Mallett, 2013a). They construct the global aid market around five stylized factors: demand for aid, supply of aid, aid products or instruments, aid effectiveness determinants, and opportunity costs or trade-offs (Ibid.). Barder (2009) argues that the aid market is imperfect and that imperfect market dynamics

largely account for the problems with aid. Specifically, the global aid market suffers from incomplete information, broken feedback loops, multiple and competing objectives, and principal-agent dilemmas (Barder, 2009). Sumner & Mallet's (2013) concept of the global aid market thus provide scope and structure to a discussion on the global aid system, even though the market understanding should not be applied uncritically. Indeed, Abegaz (2005) argues that the aid market construct should not be taken to literally, but that it is useful *"to recast the aid relationship as the interplay of demand (uses) and supply (sources)"* (Abegaz, 2005:437).

Demand for aid is produced by the perceived recipient need (Sumner & Mallett, 2013a). Perceived need is dynamic. From the 1950s to the 1970s, perceived need was addressing the savings – and foreign exchange gap and the lack of technology and knowledge. The 1980s saw a perceived need of stabilization and structural change, and the 1990s saw a need to address the poverty and local government capacity gap (Kanbur, 2003; Sumner & Mallett, 2013a). Important to note is that demand for aid is also context specific in that it depends on the recipient country's economic development. Middle income developing countries (MICs) will have different needs than least development countries (LDC). Finally, rent-seeking has a role to play as well (Sumner & Mallett, 2013a).

The supply of aid is intimately connected to why donors give aid (Sumner & Mallett, 2013a). Sumner and Tribe give two reasons why donors give aid: for ethical/moral reasons or due to self-interest (Sumner & Tribe, 2011). The ethical/moral case for giving aid consist of several subcategories including: poverty and international socio-economic justice, aid as compensation for exploitation both in connection to current exploitation and colonialism and imperialism, poverty reduction through economic growth, climate change and the environment, conflict and stress, and aid as a response to disasters (Sumner & Tribe, 2011). Ethical/moral reasons are context specific and dynamic; it differs between donors and evolve through time (Sumner & Mallett, 2013a).

Several contributions in the literature take issue with the self-interest motive of aid. Mawdsley, Savage, & Kim use slightly weaker terminology than that of pure *self-interest* when recognizing that

politics of development affect development cooperation. To them, politics of development covers interests of states, sectors, and institutions within and between donor and recipient countries (Mawdsley et al., 2014). Baulch (2006) takes a more concrete approach by referring to colonial and commercial ties, governance, institutions, absorptive capacity, geo-political considerations, and recipients' attitudes towards donors when explaining self-interest motives in the supply of aid (Baulch, 2006).

Alesina and Dollar (2000) support these arguments in their finding that donor allocations are *"dictated by political and strategic considerations"*, and that this leads to allocation patterns that do not respond to the demand side of the aid market (Alesina & Dollar, 2000:33). Thus, Alesina and Dollar does not recognize the moral/ethical motive for supplying aid. This is problematic though, since self-interest explanations generally lack explanatory power for the emergence of global governance frameworks. The global development cooperation system has recently seen significant strengthening of the global governance framework for development cooperation with the SDGs and Addis Ababa. No state acting out of pure self-interest would commit to the SDGs, which represent a significant strengthening of the global governance framework for development (Hulme, 2016).

From the above discussion, we concur that to each set of combination of goals and actors, there is a corresponding set of tools. Hence, demand and supply of aid interact with its purpose and the outcome is its instrument (Severino & Ray, 2009; Sumner & Mallett, 2013a). A change in demand is likely to lead to a re-interpretation of the purpose as it, in the global political economy, will affect both the interest and morality of donors. This will likely lead to a response in the instruments of aid. Like the market, the global development cooperation system is dynamic. As Barder (2009) argues, the aid system *"converges on an equilibrium determined by deep characteristics of the aid relations and the political economy of aid institutions"* (Barder, 2009:3).

4.2 The evolution of aid modalities

This argument resonates with Kanbur's (2003) discussion of the evolution of aid as an outcome of interaction of demand and supply of aid and corresponding objectives and instruments over time (Kanbur, 2003). Accordingly, we can understand the evolution of aid as a chronology where aid modalities have evolved in response to changes in the market for development (Ohno & Niiya, 2004). Severino & Ray notes that aid practices and instruments overlap (Severino & Ray, 2009). As new aid modalities emerge, and new aid practices and instruments take dominance, they will often be coupled with, as well as overlap, the practices of the formerly dominant aid modality (Sumner & Mallett, 2013a). Hence, today, there are a great variety and the types, instrument and products of aid (Ibid).

4.2.1 From aid effectiveness to development effectiveness

From the mid 1990s, perceived demand started re-conceptualizing towards poverty eradication. Increasingly, the global development community adopted a multifaceted understanding of poverty (Banks & Hulme, 2014; Hulme & Scott, 2010). Poverty Reduction Strategy Papers (PRSPs) are introduced by the International Monetary Fund and the World Bank in 1999 as a condition for debt relief. One year later (2000), the MDGs are adopted, and global development cooperation can be seen as having entered a new paradigm (Dijkstra & Komives, 2011). This paradigm can be coined the aid effectiveness paradigm (Mawdsley et al., 2014) and emphasize tangible results in poverty reduction through results management, a partnership relation between donor and recipient, national ownership, and governance through Poverty Reduction Strategy Papers (Dijkstra & Komives, 2011). The Paris Declaration of 2005 embodied the principles of the aid effectiveness paradigm by building on the PRSP approach of the following five commitments of development actors: ownership, alignment harmonization, managing for results, and mutual accountability (Andersen & Therkildsen, 2007; Dijkstra & Komives, 2011; Mawdsley et al., 2014).

The aid effectiveness paradigm also represent a continuation of Organization for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) as the central institution defining and regulating practices and efforts in the global aid system(Radelet, 2006; Severino & Ray, 2009; Sumner & Mallett, 2013a). Because the OECD-DAC is a developed nation club consisting of 24 members off which only two, Japan and South Korea, are not Western, OECD-DAC's centrality has also led to an interpretation of development cooperation as constituted within a North-South dichotomy(Mawdsley, 2012). Other contributions in the literature points towards the process of establishing the UN Millennium Development Goals (MDGs) when arguing that the global market for development has been dominated by a North-South dichotomy. Indeed, In the literature, the MDGs are commonly understood to be, and criticized of being, an outcome of elitist process with only Western donor countries as participants(Banks & Hulme, 2014; Hulme & Scott, 2010; Moe Fejerskov, 2016).

There is consensus in the literature that the aid effectiveness paradigm embedded in the development cooperation architecture of a North-South dichotomy has been shaken out of equilibrium as supply and demand is changing(Alonso, 2012; Janus et al., 2015; Kharas & Rogerson, 2012; Mawdsley et al., 2014; Severino & Ray, 2009, 2010; Sumner & Mallett, 2013a). The literature employs great use of terminology in coining the movement away from the aid effectiveness paradigm. Examples include *The End of ODA* (Severino & Ray, 2009, 2010), the *Post-Aid World* (Mawdsley et al., 2014), the *Creative Destruction of the Aid Industry* (Kharas & Rogerson, 2012), *From Aid to Global Development Policy* (Alonso, 2012), and *Aid 2.0* (Sumner & Mallett, 2013a). The common argument in the literature is that the global development system is challenged by a multiplicity of changes in demand and supply.

We can distinguish between internal and external pressures challenging the aid effectiveness paradigm. There is consensus in the literature that internal pressures on the aid effectiveness paradigm are caused by donors' self-interest. A common argument is that the aid effectiveness paradigm and the Paris Declaration in particular is not able to incorporate the political nature of

development cooperation. The political realities were suppressed in the vision to create a technical realm where actors agreed to a common set of goals and collaborated according to the principals of partnerships (Mawdsley et al., 2014; Oden & Wohlgemuth, 2011; Rogerson, 2005). Similarly, Dijkstra & Komives (2011) argue that the basis for the aid effectiveness paradigm is unrealistic, since there exists fundamental disagreement between development agents as to the priorities, procedures and systems to employ to achieve development objectives (Dijkstra & Komives, 2011). As Mawdsley et al. argues, politics of development is *“bubbling away from below the surface of these debates, meetings, and forums, but are rarely formally acknowledged within official documentation and pronouncements”* (Mawdsley et al., 2014, 29). Hence, we can argue that the global governance frameworks of the Paris Declaration and partially the MDGs that embedded the aid effectiveness paradigm were weak at outset.

The direct outcome of the Paris Declaration’s incapability of incorporating space for development agents to maneuver in accordance with their individual interest is disappointing results. According to the OECD-DAC (2008), first, the results of the Paris Declaration has been disappointing in terms of ensuring greater reliability and predictability of aid flows, achieving greater alignment of donor efforts with recipient country systems, as well as the outcomes in terms of enhancing mutual accountability have been disappointing (OECD, 2008). Interestingly but maybe not surprisingly, it was the donors rather than recipients that lagged behind in living up to their commitments (Mawdsley et al., 2014).

Besides the internal pressure of self-interest, the aid effectiveness paradigm has been challenged with an increasingly complex external environment (Alonso, 2012; Mawdsley et al., 2014; Severino & Ray, 2009; Sumner & Mallett, 2013a). One aspect has to do with the potential effects of the global financial crisis on development cooperation. The global financial crisis of 2008-2009 greatly affected the economies of the developed world. While the effects of the crisis were felt in the developed world for a number of years, developing countries were not hit to any significant extend. Mawdsley et al. argues that even though the effects of the global financial crisis on development cooperation cannot be determined for certain, it is likely to have accelerated a shift in the global power balance.

Additionally, the global financial crisis is likely to have driven a stronger donor focus on national interest and *value for money* in development cooperation (Mawdsley et al., 2014).

A second aspect, which has attracted the attention of a huge literature, is the mushrooming of participating agents, both state and non-state in the development cooperation architecture. New state actors include new global and regional power and post-socialist states (see Kragelund, 2011; Mawdsley, 2012; Quadir, 2013; Reilly, 2012), while non-state actors chiefly include private foundations, celebrity organizations, corporations, and social enterprises (see Fejerskov, 2015; Fejerskov et al., 2016; Fejerskov, Lundsgaarde, & Cold-Ravnkilde, 2017). Some contributions seek to uncover the novelty of new actors by describing their cooperation profile. This includes describing and providing an overview of the relevant actor's development priorities, resource flows, and institutional set-up. The majority of the literature focus on new state actors (see Kragelund, 2008; Walz & Ramachandran, 2011; Zimmerman & Smith, 2011).

Even so, the literature dominantly discusses (re)emerging regional and global powers when discussing new actors' potential to shape global development cooperation (Fejerskov et al., 2017). This signals that the literature perceives (re)emerging regional and global powers as holding the largest potential to alter the global development cooperation field (For examples see Alonso, 2012; Fejerskov et al., 2017; Kharas & Rogerson, 2012; Mawdsley et al., 2014; Sumner & Mallett, 2013). The literature is especially attentive towards the capability and interest of emerging global powers like China, India and Brazil, and regional powers like South Africa and Saudi Arabia to exercise influence on global development cooperation (See for example Kragelund, 2008, 2011; Quadir, 2013; Reilly, 2012).

The literature differs on the potential and interest of (re)entering regional and global powers to alter the field of development cooperation, and whether it would be a good thing, if they did so.

For some, (re)entering regional and global powers provide a positive fracturing of the North-South dichotomy that has dominated development cooperation since its birth. By providing an alternative

development model and re-balancing global power, recipient countries will have greater choice in both their sources of financing and their approach to economic growth and development. These contributions see the South-South cooperation (SSC) model as contrasting the North-South cooperation model. SSC is known for cooperation modalities provided on a commercial basis, for example, concessional lending (Fejerskov et al., 2017; Mawdsley, 2012). Its definition of development rests on economic growth rather than the multidimensional poverty approach of the OECD-DAC (Banks & Hulme, 2014; Hulme & Scott, 2010; Mawdsley, 2012). It is discoursed around shared developing country identity, development expertise, horizontal partnerships, and mutual opportunity (Mawdsley, 2012). Whether (re)entering regional and global powers provides a positive alternative to OECD-DAC led efforts remains to be seen, though. The perspective heralding SSC forgets to take account for vast differences persisting between developing nations. The relation between China and Sudan is clearly not equal. Purely equal partnerships between the Southern donor and the recipient is thus unlikely, given the premise of politics of development (Mawdsley, 2012).

Others express concerns that OECD-DAC gains and harmonization efforts will be totally undermined by the proliferation of new actors and alternative approaches to development. Manning (2006), for example, argues that the proliferation of non-DAC donors risks undermining the effectiveness gains of development cooperation, and that it is important to establish a dialogue between non-DAC and DAC donors (Manning, 2006).

Finally, some argue that the potential of (re)emerging donors to alter the field of development cooperation is overstated. For example, Quadir (2013) argues that Southern donors have an interest in altering the dominant conditionality driven narrative of development cooperation and that this has released an opportunity for creating a new development cooperation paradigm with greater emphasis on the strategic desires of the recipient country than on enhancing the ideological interests of the donor countries. Yet, as long as emerging donors does not constitute at larger role in giving aid, and without them constructing a unified platform based on a shared development vision, Southern donors will not be able to meaningfully alter the current DAC-dominated development cooperation

architecture(Quadir, 2013). Seen in this light, it would be an overstatement to argue that Western-dominated aid institutions and regimes are dead. Kharas, Makino & Jung capture a popular middle-of-the-road view by arguing *“While the OECD-DAC remain the core of the global aid system, its monopoly of world ODA is eroding with the rise of the so-called new development partners... Traditional donors that form the OECD-DAC can no longer claim to speak for the world’s donor community”* (Kharas, Makino, & Jung, 2011, 38).

Hence, we can refer to the internal pressure of politics of development and the external pressure of an increasingly complex external environment specifically constituted by emerging global and regional powers in explaining the move away from the aid effectiveness paradigm. While agreement is to be found in the literature to the statement that global development cooperation is moving away from aid, and that the causes are to be found in the movements detailed and discussed above, there is less agreement as to where development cooperation will find its new equilibrium(Janus et al., 2015; Mawdsley et al., 2014).

Yet, Mawdsley et. al (2014) suggest a direction by observing three main elements that would constitute a new development assistance paradigm. First, a renewed focus on economic growth, increasing industrial productivity and wealth creation in contrast to the earlier focus on poverty reduction. Second, greater integration between foreign aid and other policy areas such as trade, investment, and migration, and a growing and, thirdly, a more visible role of the private sector(Mawdsley et al., 2014). These three elements tie in with the growth in the supply of different development financing mechanism, which is one of the outcomes of the mushrooming of new actors in the development cooperation architecture (Alonso, 2012; Kharas & Rogerson, 2012; Mawdsley et al., 2014; Severino & Ray, 2009; Sumner & Mallett, 2013a), often termed innovative financing mechanisms(IFMs)(Severino & Ray, 2009; Sumner & Mallett, 2013a). Innovative financing mechanisms (IFMs) include market-based approaches to development finance such as public-private partnerships (PPPs) and engaging new groups and networks such as the private sector, consumers, and foundations into development finance models. They are often targeted towards accelerating the

economic convergence between developing and developed economies as well as to ensuring global and regional public goods such as climate(Severino & Ray, 2009; Sumner & Mallett, 2013a).

All these contributions have been made prior to the adoption of the UN 2030 Agenda with its SDGs and the corresponding UN Financing for Development Conference of Addis Ababa (Addis Ababa) agreed to respectively in September and July 2015(Engberg-Pedersen et al., 2016). There is not yet a body of literature discussing the movement of the equilibrium of global development cooperation in the context of the SDGs and the corresponding Addis Ababa. Yet, a recent report from The Danish Institute for International studies (DIIS) contain six contributions on different perspectives on the financing for development paradigm after the SDGs and the Addis Ababa(Ibid.). In one of these contributions, Engberg argues that the Addis Ababa embodies paradigmatic change in two aspects. First, by emphasizing the need for public policies and regulatory frameworks to incentivize changes in production and consumption patterns that currently impede sustainable development. Second, by arguing that the private sector has a large role to play, and that it should integrate public interests into its activities. As Engberg argues: *"it is no longer a black box allocating resources to optimize profits, but a diverse set of actors given responsibility as partners in solving global challenges."*(Engberg-pedersen, 2016, 27). In this way, the Addis Ababa represent a re-conceptualization of the relationship between the public and the private in that the role of the public is to enable and incentivize private investments so that business can operate efficiently and hence contribute to development. The views expressed in the Addis Ababa are naturally also expressed in the SDGs, which also highlight the importance of reducing economic inequalities both between and within countries (Engberg-Pedersen et al., 2016). Similarly, Ravensborg (2016) argues in the same DIIS report that the new development cooperation equilibrium contains an insistence that the public sector is tasked with the prerogative of regulating investments in the public interest, which are not solely based on concerns of economic returns. Her argument speaks to the following quote from the Addis Ababa: *"We will develop policies and, where appropriate, strengthen regulatory frameworks to better align private sector incentives with public goals including incentivizing the public sector to adopt sustainable practices, and foster long-term quality investment."*(UN, 2015: \$11). To achieve

this, the Addis Ababa allocates a key role to institutions and instruments “*development banks, development finance institutions and tools and mechanisms such as public-private partnerships, blended finance...*”(UN, 2015: \$16). Addis Ababa also introduces the blended finance concept and its usefulness. In addition, it provides a definition of blended finance to be the combination of “*concessional public finance with non-concessional private finance and expertise from the public and private sector*” (Ibid.: \$48).

Since Addis Ababa, the increasing traction of the development effectiveness paradigm is very much embedded in the development of the blended finance concept. Hence, we will now move into a narrower discussion of the financing for development instrument of blended finance. The purpose is to yield an understanding of how the equilibrium constitute itself in the instruments applied, as well as it is to discuss what potential this new equilibrium holds to unlock its objective of sustainable economic growth in developing countries. Yet, it should be noted that even though the amount of literature on blended finance is growing rapidly, it is still a very emerging literature. This is only natural, given that the concept only first emerged within a global governance framework less than three years ago (July 2015).

4.3 The emerging literature on blended finance

Carter (2015) argues that blended finance has emerged within global development cooperation’s new mantra of catalytic aid (Carter, 2015). It constitutes a reconceptualization of IFM, which proved to be so fluffy a concept that it proved incapable of providing a common reference point for practitioners and academia alike (Cedergren, 2018). UNCTAD established that there is an investment gap of USD 2.5 trillion every year that need to be mobilized in order to meet the SDGs(UNCTAD, 2014). This figure has been widely adopted by international organizations such as the OECD and the World Economic Forum(OECD, 2018; OECD & WEC, 2015) as the basis for re-conceptualizing aid to be catalytic: aid is now tasked with mobilizing private investment because aid flows will never be enough to finance the SDGs(Carter, 2015). Tellingly, OECD argues in a recent report “*Blended finance has potential to help bridge the estimated USD 2.5 trillion investment gap for delivering the SDGs in developing countries.*”(OECD, 2018: 13)

Yet, even though Addis Ababa did propose a definition, there is no consensus on the exact definition of blended finance within the development finance landscape. According to a report by Development Initiatives (2016), blended finance in the development context *“is a group of financing mechanisms that uses public sector funds (and sometimes philanthropic funds) to mobilize additional capital for the financing for development projects”* (Development Initiatives, 2016). Talbot (2015) employs a shorter but similar definition of blended finance as referring to *“financing structures and solutions that mix private capital with public support to get investments... off the ground”* (Talbot, 2015). A similar definition is employed by the Business & Sustainable Development Commission (Business & Sustainable Development Commission & Convergence, 2017). These contributions thus see blended finance as the use of public funds to mobilize private capital towards meeting development objectives. When using the terms of *“public sector funds”* and *“public sector support”* these contributions also indicate that public financing is provided on concessional terms – below market rates. OECD provides a different definition of blended finance defining it as the *“strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries”* (OECD, 2018).

The OECD’s definition is different on two parameters: first, instead of distinguishing between private and public capital, the OECD distinguishes between commercial and non-commercial – or development finance (OECD, 2018). This implies that a blending arrangement can take place between a private philanthropic fund which supplies development finance to mobilize private commercial capital. Second, non-commercial financing, or development finance, does not have to be concessional in order for it to be blending (OECD, 2018). This implies that blended finance also covers the situation when a DFI provides a market rate loan to mobilize additional capital towards development objectives. Opposing this market of definitions of blended finance, Carter (2015) argues that blending is nothing but a branded subsidy (Carter, 2015).

The logic of blended finance (OECD 2018, 2015) is that development resources are needed to improve the risk-return profile of investments in developing countries. This is so, since developing countries are experiencing a financing gap, even though there is no shortage of capital on a global level. By altering the risk-return profile, blended finance can attract commercial finance, contribute to exhibiting project viability and construct markets that will be enabled to attract commercial capital for development without the help of development finance (OECD, 2018; OECD & WEC, 2015). The instruments employed include the more traditional ones such as loans and grant but also include more innovative measures such as guarantees, securitization, currency hedging and political risk insurance (ibid.)

While interest of national and international development institutions in blended finance is increasing, evidence proving the effects of blending is limited. As Carter argues, there is a lack of empirical evidence that blending has a positive impact on the level of investment in developing countries, rather than merely funding projects that would have happened anyway (Carter, 2015). OECD argues that the cause is the fundamental problem that no consistent estimate on the size of blended finance exists (OECD, 2018). The OECD is not alone in observing this problem. Eurodad, a network of 46 NGOS, has called for an immediate end to ODA being channeled through the EU blending facilities as long as there is no trustworthy evidence that blended finance mechanisms enhance development objectives (Eurodad, 2013). As long as there is no such evidence, Eurodad argues that the added value of the development finance element is questionable, and that existing blending mechanisms therefore is likely to be wasting scarce ODA resources. In contrast to Eurodad's position, Carter argues that donors should not refrain from using blending finance if lacking thorough evidence that blending will have a direct effect on poverty reduction if the right circumstances present themselves. The right circumstances are geographies and sectors where investment is needed but demonstrably lacking (Carter, 2015). He further argues that it will never be possible to generate empirical evidence that blending increase sustainable investment *"until somebody agrees to run a very expensive randomized control trial"* (Carter, 2015: 24). Carter further argues against the requirement of evidence and the call for results-based management by arguing that this kind of management contains the risk that

organization's behavior become distorted around a set of quantitative targets (Carter, 2015). This can be interpreted as a criticism targeting the entire development cooperation system as it is largely constructed on results-based management. In addition, Carter critiques blended finance on a more fundamental ground by referring to complaints that the real constraint on investment in developing countries is a lack of bankable projects, implying that there is no availability of investment projects close to commercial viability. This means that donors should not dedicate too many resources towards blending without first developing methods to grow the base of (close to) commercially viable investment projects (Carter, 2015).

4.4 Conceptualization of the development effectiveness paradigm

We can conceptualize the development effectiveness paradigm and its dominant modality of blended finance by condensing the contributions made above. The perceived demand of development cooperation can thus be conceptualized as economic growth, including increasing industrial productivity, and wealth creation. Developing markets suffer from a market failure that results in a financing gap. The purpose of development aid therefore becomes to close the financing gap and thereby accelerate economic convergence between and within developing nations. The supply takes the form of private investment. Yet, private investment should be employed in a sustainable manner so as to ensure public goods such as the climate and decreasing inequality. In order to incentivize private investment as well as to ensure its sustainability, public institutions should supply incentivizing measures through governance and regulation. The purpose of aid therefore becomes that of catalyzing private investments towards development objectives. The objective of promoting private investment through publicly anchored incentivizing instruments came from the concept of IFM which was later, with greater success, re-conceptualized as blended finance. No common definition of blended finance exists; but it involves the use of development purpose capital to mobilized profit-oriented capital towards investments that will serve a development purpose. In order to do so, blended finance instruments are used in increasingly innovate ways mimicking the construction of private financial markets by using relatively complex instruments such as guarantees, risk insurances, securitization, and mezzanine. International organizations such as the OECD emphasize the

importance of policy coherence if blended finance is to work. To provide an overview of the changing markets for aid and its modalities over time, we refer to the summary below.

Time period	Demand for aid – defined need	Supply of aid – aid modalities
1950s-	Capital shortages (domestic and foreign exchanges); Knowledge and technology gaps shortage	Projects, mainly infrastructure and agriculture, and program aid. Program aid consisting of Balance-of-payments (BoP) support through commodity loans or grants, aiming at financial transfer. Prevalence of stand-alone projects. Technical assistance (TA) projects. Project, program and technical aid all consistent with knowledge transfer.
1980s-	Macroeconomic stability; structural reforms	Structural Adjustment Lending and Sector Adjustment Lending. Prevalence of program aid, adding policy conditionality to BoP support
1990s-	External debt problems	Program aid increasingly attached to debt relief initiatives
Mid 1990s-	Building the core government systems; recurrent financing; policy and institutional coherence; state capacity	Emphasis on sector wide approaches and pooling funds, e.g. pooled TA. Budget support and cash transfer both general and sector specific. New conditionality attached to ex-post development effects, country-specific Paris Declaration introduced Poverty Reduction Strategy Papers (PRSPs), civil society capacity building, social production
Between the global financial crisis (2008-2009) and the Busan High Level Forum (2012) - now	Economic growth, including increasing industrial productivity and wealth creation. Solving developing country market failure of financing gap. Ensuring public goods such as the climate.	Innovative financing mechanisms (IFMs) include market-based approaches to development finance such as public-private partnerships (PPPs) and engaging new groups and networks such as the private sector, consumes, and foundations into development finance models. Later developed into blended finance which coin the mobilization of profit oriented capital towards investments that promote development objectives by applying development oriented capital towards decreasing the risk of the investment. Global Public Goods (GPG)/ Regional Public Goods Policy coherence

Table 2 Summary of changing markets for aid and its modalities (Kanbur, 2003; Kim & Lee, 2013; Ohno & Niiya, 2004; Radelet, 2006; Severino & Ray, 2009; Sumner & Mallett, 2013a)

At the end of our literature review of aid markets and its modalities, it should be clear to the reader that the literature seldom addresses the organizational change within national development agencies and other public bodies for the provision of development finance. Instead, the literature deals with international organizations, global governance frameworks, and the effects of broad changes in the global political economy on the market for aid and its modalities. This literature thus does not guide us on explaining change in development policy within a set of nationally embedded organizations. Hence, as accounted for in the literature, we apply the broad theoretical framework to guide an exploratory study purposed with explaining change within Danish development assistance.

5.0 Literature review of Sociological Institutionalism

5.1 Qualifying the choice of sociological institutionalism

Sociological institutionalism will provide the theoretical framework that we use in our thesis to explain the changes, which we observe towards the increased use of blended finance in Danish development assistance. Sociological institutionalism engages specifically with organizational behavior and change, how institutions play into this, and how structures and practices become institutionalized in the organization (Beckert, 2010a; Dacin, Goodstein, & Scott, 2002; Moe Fejerskov, 2016; Powell & Bromley, 2013; Scott, 2016). This is an appropriate theoretical approach since the unit of analysis of this thesis is the organizations of IFU and Danida, and since we subsequently seek to explain the changes that these two organizations have incurred. Sociological institutionalism enables us to engage with the underlying reasoning of organizational change. Because we seek to explain the change towards increasing use of blended finance in Danish development assistance, we seek to understand the norms, practice, ideas, and interests that provides the basis for this change. Understanding such concepts and how they are placed in a certain context is the purpose of sociological institutionalist theory (Dacin et al., 2002; Drori, Meyer, & Hwang, 2006; Powell & Bromley, 2013; Pratt, 2007). Thus, sociological institutionalism fits well with our research agenda.

Other institutional theories exist. Yet, these would not be as adept at engaging with organizations as the primary unit of analysis. This is so, since sociological institutionalism provides better insight into

specific organizational logics and how to apply these for analytical purposes. Three overall theoretical traditions are present within what can be referred to as “neo-institutionalism”, one of which is sociological institutionalism. The remaining two traditions that comprise neo-institutionalism are rational choice institutionalism, generally associated with economics, and historical institutionalism thought of as a cornerstone of comparative politics (Powell & Bromley, 2013).

Rational choice institutionalism would not be suitable to our project as it is preoccupied with how actors maximize their utility given rule - and incentive constraints (Powell & Bromley, 2013). It presupposes that (institutionally) constrained agency is the mechanism of change, but it does not provide an insight into the formation of interests and preferences and how these can change (Ibid). Explaining the change in Danish development assistance through an assumption of actors pursuing their material interests thus neglects the potential for altruism that might be present in development policies. Historical institutionalism does not apply such a narrow conceptualization of interests nor does it give interests explanatory primacy. It is a theory in which path dependence is of central importance, because it investigates how ideas change based on previous conceptions and new experience (Blyth, 2001). Yet, historical institutionalism is generally perceived to be incapable of explaining change. As explaining change is the key objective of our research, historical institutionalism is thus not a good fit for our thesis. In addition, sociological institutionalism also enables us to investigate how current change is an outcome of previous experience. Sociological institutionalism has the additional advantage that it is well adapted to the study of organizations (DiMaggio & Powell, 1983; Powell & DiMaggio, 1991; Pratt, 2007) and thus fits with our focus on the organizations of Danida and IFU. It provides the most thorough theoretical conceptualization of organizational and institutional change, interaction, and their dynamics.

In order to understand how this theoretical direction will be useful towards our particular ambition, and to position ourselves within this, we will provide a review of the literature on sociological institutionalism. This literature review will serve as the theoretical backbone enabling a thorough theoretical analysis once we have identified how this policy change has occurred. This literature

review will engage with the plethora of literature attempting to theorize how organizations and organizational fields are co-created and institutionalized, how organizations engage in contests of issue definition, and how a strive for legitimacy exerts dynamic pressure on institutions and organizational structures. It is a field that has been developed to explain change at the level of the individual, the organization, and the organizational and institutional field (Moe Fejerskov, 2016).

The literature review will be structured as follows: First we will define the key concepts of organizations and institutions as they are generally applied and understood within this theoretical tradition. Then we identify three major branches of theoretical thought present within sociological institutionalism, which will be accounted for in turn. These are the world polity approach, studies of the organizational field, and lastly the literature on institutional entrepreneurs.

5.2 Organizations and institutions

Sociological institutionalism is a theoretical approach that explains organizational structure, behavior, and change as it relates to institutionalization. It is a theoretical field in which there are two primary objects of observation, the organization and the institutions, for which the purpose is to explain their relation and how one (the institutions) determines the expression of the other (the organization) (Moe Fejerskov, 2016; Powell & Bromley, 2013; Pratt, 2007) . Before we engage with the specificities of the different works that exists within this theoretical field, it is important to provide the distinct conceptions of organizations and institutions, as they are employed in this theoretical tradition.

In sociological institutionalism the concept of institutionalization commonly refers to the emergence of shared cognitive and normative frameworks, which also entails a common frame for what constitutes legitimate action (Dacin et al., 2002; Dingwerth & Pattberg, 2009; Moe Fejerskov, 2016). While this is subject to relative agreement among sociological institutionalists, the literature comprises several competing and alternative theoretical claims towards the processes of how such institutionalization occurs, the appropriate scope of investigation, and what these processes of institutionalization means for the individual organization.

As a means to operationalize research programs that can investigate their interaction, institutions and their order have been defined in several different but interrelated ways. Scott (2008:428) sees institutional order as consisting of three distinct elements constituting processes of social reproduction. These are regulative, normative, and cultural-cognitive processes, which provides stability and give meaning to social behavior (Pratt, 2007; Scott, 2008). These can be spread to different settings by carriers such as cultures, structures, and routines (Pratt, 2007; Scott, 2008). This is still a very wide definition of institutions, and it is not very adept at explaining how these institutions emerge, but rather takes the legal (regulative), normative, and cultural aspects as a given. Still, it enables a distinction between these institutions, and how they shape the social institutional order, in which organizations exist and navigate their environment, as they search for legitimacy.

Moe Fejerskov (2016) is also very careful to point out that institutions and organizations are separate entities although formal institutions often take the shape of organizations. But he argues in favor of a somewhat different definition of institutions as compared to Scott (2008). Instead they are *“taken-for-granted repetitive social behavior that gives meaning to social exchange, enabling self-reproducing order”* (Moe Fejerskov, 2016: 2178). He thus provides a broader definition, as he does not provide any set number of institutional spheres. Their emphasis on institutions as potentially self-reproducing is common for most definitions found in this branch of the literature (Beckert, 2010b; DiMaggio & Powell, 1983). Moe Fejerskov (2016: 2178) also argues that these institutions are a way to provide stability and meaning to social behavior and thus constrain and enable patterns of action. The use of institutions as providers of stability and meaning shows the constructivist antecedents of sociological institutionalism. This is so, since these institutions often can take form of commonly shared ideas that can serve to reduce uncertainty. A central element of institutions are thus how they are recognized in much the same way between a large number of people. Institutions are thus able to widely carry the same meaning and prompt similar social behavior across society.

Organizations, meanwhile, are much more formalized than institutions with explicit purposes, activities and a well-defined and distinct group of people inhabiting them. Organizations, in this branch of social science, are typically defined as being derived from institutions, but as manifestations of *“explicit rule systems and implicit value clusters”* (Moe Fejerskov, 2016; Suddaby & Greenwood, 2009:176). While organizations and their activities are both enabled and constrained by institutions they themselves carry their own organizational culture, specific rituals, and language, which shapes their behavior. This perspective, which generally tends to be the starting point in the tradition of sociological institutionalism, thus creates an ontological independence between institutions and organizations (Moe Fejerskov, 2016), which enables analysis of their interaction and their idiosyncratic nature. It also entails presupposing a certain relationship between these two analytical objects as organizations manifest and embody the values and norms of institutions while institutions are reproduced through organizations – they are mutually reinforcing (Moe Fejerskov, 2016:2178-2179)

The attention that some scholars have directed towards the identity building of organizations and institutions in sociological institutionalism echoes DiMaggio and Powell’s (1983) assumption that seeking legitimacy is the primary objective of organizations. This focus is still at the heart of sociological institutionalism. Opposing much financial and economic scholarship, sociological institutionalism does not perceive efficiency, profitability, or maximization of value as fundamentals to organizational survival. Instead, they argue that if an organization can lay claim to legitimacy, which often but not universally requires profitability, then its existential basis is secured. If, however, an organization is unable to attain societal legitimacy then profitability, or any other measure, will not ensure its survival. These definitions, reflecting both a certain ontology and epistemology as well as methodological purpose, have nevertheless developed into a broad range of theories attempting to explain institutional and organizational change, homogeneity, and heterogeneity.

5.3 Theorizing organizational and institutional change – World Polity and Diffusion literature

The world polity approach is, as its name implies, engaged with the ability of institutions to seemingly transcend national and cultural boundaries. In a similar vein a considerable amount of the scholarship that is referred to as “diffusion literature” does the same. Many papers within sociological institutionalism covers both the world polity approach and the diffusion literature, depending on who is categorizing the terms. When it is referred to as diffusion, it usually also covers scholarship that is more interested in international diffusion, and applies a perspective that is less macro and less focused on universalistic pressures than what is associated with the world polity approach. The world polity approach is also preoccupied with explaining the diffusion of institutions, but always takes a macro perspective. This section will deal with what we term the world polity approach.

One factor that is particularly prominent in large parts of the world polity literature is the role of market-based competition in shaping and structuring organizational life. The argument that capitalist competition leads to similar organizational structures can be traced back to Weber’s writings in the early 20th century. Weber put forward an argument that capitalist competition leads to increased rationalization in bureaucracies and organizations (Beckert, 2010a; DiMaggio & Powell, 1983). This meant that the pressures of competition entail isomorphism, understood as organizations taking similar form. As organizations are structured around the same rationalities and competitive pressures, this leads to the *“Iron Cage of the bureaucracy”*. This perspective of capitalist competition as an omnipresent structure shaping social life is prevalent in sociological intuitionism in general, but particularly so in the world polity approach.

The world polity perspective is strongly associated with John Meyer and his collaborators (Powell & Bromley, 2013). It is preoccupied with the impact of modernity on social life and how it transforms virtually all sectors of organization at every spatial level ranging from the nation-state to the individual (Ibid). In line with Max Weber, Drori, Meyer, & Hwang (2006) point towards rationalization, individualism, and a notion of progress as the global cultural institutions underpinning modern

organizational life. Throughout a range of studies these scholars have pointed towards the increasing similarity of schools, hospitals and healthcare, universities, government agencies, and NGOs across geographical locations. The institutional theory they have built to explain these similarities, which they ascribe to modern notions of rationality, progress, and capitalism, which has been diffused, is centered on an argument that much behavior reflects enactment of socially appropriate frames in a given context (Powell & Bromley, 2013).

The world polity approach perceives these underlying cultural assumptions as universalistic based on their empirical observations of increased similarity across this range of organizational spheres. This branch of sociological institutionalism starts with the observation that structural similarity of complex organizations, across geographical and politico-economic divisions, are greater than what they ought to be, if they simply reflected immediate technical needs (Meyer, Boli, Thomas, & Ramirez, 1997). The rationalization of organizations is linked to “*world society*” which they measure by trade openness, membership of international organizations, and the value assigned to the professions, and the universalistic acceptance of science. These isomorphic pressures are, however, not the expression of progress, but rather the result of the spread of these ideas. Like much of the sociological institutionalist literature they put explicit emphasis on how organizations serve to legitimate themselves. They do this by enacting social frames widely perceived as appropriate within their social context. Inspired by Mead (1934), Meyer et al. (1997) stresses the constructed nature of reality and how ideas frames behavior and provides scripts for organizing through which legitimacy can be drawn.

Strang & Meyer’s paper from (1993), *Institutional Conditions for Diffusion*, is a benchmark in this literature. Some argue that it is generally perceived to be part of the theoretical core of the diffusion literature (Moe Fejerskov, 2016), but often it is also seen as central to the world polity approach (Powell & Bromley, 2013). Meyer in particular is an important scholar in sociological institutionalism and has been a prominent figure in defining parts of the sociological institutionalism that tends to be more constructivist and macrosocial in nature than what is associated with other prominent scholars

in this area such as DiMaggio & Powell (1983), Powell & Bromley (2013), Scott (2008), Lawrence, Hardy, & Phillips, (2002), and Lawrence & Suddaby (2006).

In this paper Strang and Meyer (1993) argues that theorization itself can speed up and spur processes of diffusion. Theorization is in this case defined as *“the self-conscious development and specification of abstract categories and the formulation of patterned relationships such as chains of cause and effect”* (Strang & Meyer, 1993:492). This notion of theorization is thus close to the definition of institutionalization as *“repetitive social behavior that gives meaning to social exchange, enabling self-reproducing order”* by Fejerskov (2016: 2178) insofar as it is able to spread and become the subject of a relatively stable consensus. This abstract reasoning, Strang & Meyer argues, leads to general models that through their provision of cultural categories functions to reenact their own models. This line of argument stems from the writings of Mead (1934) on the subject of the constitutive role of *“the generalized other”*, and the social control significance of the wider community’s model of the internal structure of the *“self”*. In other words, the theorization of control and communication processes expands the diffusion of associated reforms (Strang & Meyer, 1993). An example is the theorization of novel accounting and budgeting practices or even Marxist theorizations of world-history, which has diffused the idea of socialist revolutions to surprising and heterogeneous areas of the world (Ibid).

Strang & Meyer (1993) refines this argument along two lines. They argue that diffusion becomes more rapid and universal, as the theories that informs the cultural categories becomes more abstract and complex. In this sense, highly theorized modes or organization also means that diffusion across the organizational field is highly likely. The second refinement relates to the importance of social relations with respect to diffusion. Social relations, interfaces and connectivity between individuals and organizations in an organizational field is widely expected to enhance processes of diffusion. Strang & Meyer argues that theorization renders social relations and differences across adopters less important. The general models provided by the theorization facilitate communication and influence even between weakly connected actors. These models enable them to understand each other, make sense of the world in broadly similar ways and align their interpretation of certain events and

appropriate responses. Theorization thus reduce the required amount of direct contact between actors in order for diffusion to take place as it facilitates more meaningful communication (Strang & Meyer, 1993). This leads to a preoccupation with the sciences and professions as a locus of attention, because this is where theorization primarily takes place (Ibid). This is very much in line with DiMaggio & Powell (1983) who also argued for greater investigation into the role of the professions as related to processes of isomorphism and organizational change, but it is much more focused on a coupling of ideational perspective and macro-social conditions.

The world polity approach is thus preoccupied with structural dynamics and leaves less space for agency than the micro-founded institutionalist literature. This does not mean that these different strands of sociological institutionalism are conflictive. This is so, since the world polity approach accepts that local and national institutionalization exists. This is just not the primary subject of interest for this macro-social perspective. It also leaves room for studying how these global tendencies may interact with local and national institutions to provide particular outcomes and forms of organizing (Drori et al., 2006).

5.4 Organizational fields and their interaction with the organization

We will now move away from the discussion of the world polity view and its perspective on institutional diffusion. Instead, we will turn our attention to a branch of sociological institutionalism that applies more of a meso-level perspective on the institutional dynamics that shape organizations. This is the branch of sociological institutionalism that is perhaps the most well-known, and also the one that have theorized the notion of the organizational field, and most actively applies it to explain organizational structure and behavior. First, we will account for the concept of organizational field and its implications for the scope in this type of sociological institutionalism. Then we will uncover the remaining aspects of this theoretical branch and how it applies the notion of field for analytical purposes.

This branch of sociological institutionalism applies a perspective that differs somewhat from the diffusion and world polity literature accounted for above which attempts to identify society wide transnational institutions. In contrast, this other type of sociological institutionalism posits that organizations are first and foremost defined through the organizational field in which they are situated (Beckert, 2010a; Dacin et al., 2002; DiMaggio & Powell, 1983; Dingwerth & Pattberg, 2009; Hardy & Maguire, 2010). Organizational models are embedded in a field context which includes specific regulation that are often rooted in the geographical area in which the field exists, such as a specific nation. The organizational field is the unit of analysis as this is the context towards which the organization is consciously aware and actively attempts to adapt.

DiMaggio & Powell (1983) were among the first to combine the notion of organizational fields and organizational level change. They did so by linking individuals and organizational strive for legitimacy with society-level structural processes through inspiration by Giddens concept of structuration. DiMaggio & Powell are widely accepted as having spurred the immense growth of sociological institutionalism from the 1980ies onwards (Beckert, 2010b; Dacin et al., 2002; Moe Fejerskov, 2016; Powell & Bromley, 2013; Pratt, 2007; Scott, 2008). They define fields as existing to the extent that they are institutionally defined (DiMaggio & Powell, 1983:148). An organizational field thus comprises all organizations that are widely recognized as partaking in the same institutionalized activity. An example of this is suppliers, consumers of resources and products, regulatory agencies, and organizations engaged in the production of similar products (Ibid). This notion of an organizational field purposefully captures a wide range of organizations in order to emphasize the importance of connectedness and structural equivalence between organizations (Ibid). The organizational field as a unit of analysis contrasts with other, typically earlier, approaches of organizational studies in which a concept of the “environment” takes the place of the field (Moe Fejerskov, 2016). While the concept of environment is passive and implies a taken-for-granted external reality, the notion of field purports a co-constitution taking place between the organizations which it comprises: An environment is given, a field is made (Dingwerth & Pattberg, 2009).

Given the “made up nature” of organizational fields, the literature has engaged in defining its constitutive parts. DiMaggio & Powell (1983:148) identifies four parts of field structuration: Increasing interaction between the organizations; the emergence of inter-organizational structures of domination and patterns of coalition; an increase in the information load with which the organizations must contend; and lastly, the development of a mutual awareness between the organization that they are involved in a common enterprise. Once these processes have taken place and a field has become “mature” (Moe Fejerskov, 2016), the sociological processes intensify and push and pull mechanisms exerts pressures of either isomorphism (DiMaggio & Powell, 1983) or heterogeneity (Beckert, 2010b).

Such a notion of field has several theoretical implications. It involves a perspective that enables multi-directional change (Moe Fejerskov, 2016) as several, potentially heterogeneous, organizations are part of co-constituting the field – something than can take place through several different forms of both contestation and cooperation (Beckert, 2010b; Moe Fejerskov, 2016). It also puts emphasis on the interdependence that is at play between institutions, organizations and the individuals that inhabit them. Interdependence is part of shaping changing roles and identities of these (Dacin et al., 2002).

The starting point by DiMaggio & Powell (1983) is that they observe organizational similarity in the formal structures of the organizations across fields. The world polity literature in contrast does not only focus on the formalized structures of organizations, but also on the ideas and rationales that can be found in them. DiMaggio & Powell also engages with ideas, but for them the ideas are interesting not so much in their own right, but as something that ultimately becomes expressed through particular organizational features and practices.

They identify three different types of isomorphic pressure that explains how organizations are shaped by the field in which they operate: 1) coercive isomorphism such as legislation that must be adhered to 2) mimetic isomorphism which are seen as standard responses to uncertainty and 3) normative

isomorphism resulting from the spread of ideas and cognitive frameworks through 'professionalization' (DiMaggio & Powell, 1983:150). Coercive pressure is defined as arising out of political influence and often take the form of an organizational response to government mandated regulation and legislation. Mimetic pressure is understood as a standard response to uncertainty. An organization may find itself in an environment of uncertainty if technologies and problems are poorly understood, if solutions are ambiguous, or if goals are unclear (Ibid). In such a situation, an organization may become incentivized to copy others as strength in number can insulate against this uncertainty. Doing as others would have done in the same situation (i.e. copying others in the field) is an argument protecting against the consequences of uncertainty. Normative isomorphism stems from the role of professionals. It is the organizational response to the demand for the legitimacy that can be derived from professional socialization leading to conviction about the superior solution. Normative pressure is thus exerted when organizations and its professionals engage in intense professional socialization such as networking or training leading to adopt practices that they have become convinced are superior.

This perspective is very similar to that of Scott (2008:428) who sees institutional order as consisting of three distinct elements constituting processes of social reproduction. These are regulative, normative, and cultural-cognitive processes which provides stability and gives meaning to social behavior (Pratt, 2007; Scott, 2008). Both Scott and DiMaggio & Powell sees these pressures as arising out of the field. While these elements are very close to the coercive, mimetic, and normative isomorphic pressures described by DiMaggio and Powell in 1983, it is important to be aware that while DiMaggio and Powell saw their three isomorphic pressures as a theoretical explanation for homogeneity among organizations, Scott (2008) perceives his three processes as the backbone of any institutional order. Hence, to Scott, they are not just a theoretical explanation for homogeneity.

DiMaggio & Powell (1983) have been criticized for their preoccupation with isomorphic change at the expense of attention to the empirical phenomenon that is heterogeneity (Beckert, 2010). As a response to this, Beckert (2010) sets out to define different conditions under which these three

institutional pressures may result in either isomorphic change or heterogeneous change. Beckert (2010) refers to these as power, attraction, and mimesis but acknowledges they are products of DiMaggio & Powell's (1983) initial typology.

Another discussion that takes place in the literature on how organizations adapt to the pressures exerted from the field in which they are placed is the role of competition. The initial inspiration for DiMaggio & Powell (1983) was that of Max Weber's Iron cage towards which they sought to establish a theory rivaling that of competition-based explanations of isomorphism. While they succeeded in creating what has become a very popular sociological theory, they did not attempt to invalidate competition-based explanations for organizational life, but instead to broaden the scope (DiMaggio & Powell, 1983). Nonetheless competition have taken a much smaller role in this new type of institutionalism compared to what is popularly referred to as the "old" institutionalism associated with Weber.

Since then authors such as Beckert (2010) has argued for a reintroduction of competitive pressures in the literature by arguing that the theories by Weber and DiMaggio & Powell are not mutually exclusive, but rather complementary. In addition to this the complementarity of these approaches may also improve the theorized explanatory models' abilities to predict heterogeneity in addition to isomorphism (Beckert, 2010b). In diffusion literature both market and non-market forces are employed regularly, but they rarely engage with the empirical phenomenon that is increased heterogeneity (Ibid). Applying competition for analytical purposes requires much attention to the nature of the competition: which interests are pursued, and the mode of competition: how is competition carried out and under which circumstances. Competitive pressure may lead to heterogeneity as organizations attempt to carve out niches (Beckert, 2010: 161) or to isomorphism as a particular mode of organization is established as competitively superior (Beckert, 2010: 160).

Other branches of sociological intuitionism engage with change from another perspective. While this literature emphasize structural change and how field-level structures are imposed on

organizations other parts of the literature puts more emphasis on the role of agency. Rather than the top-down perspective prevalent in diffusion and world polity literature other scholars engage with the bottom-up perspective of how actors in turn shape the organizational field and the institutions within which they are embedded. This literature, just like Moe Fejerskov (2016), emphasize that organizational fields and the structural pressures that may be exerted from them through e.g. normative and rational institutions and competitive pressures are not static but rather dynamic and ever changing in nature. Sources of change may be various and can be both exogenous and endogenous to the organizational field (Moe Fejerskov, 2016:2180).

5.5 Micro-level foundations in organizational and field-level change - Institutional Entrepreneurs

Changing institutions and the organizational field may thus arise from within the field itself.

Conflictive interactions among organizations are part of shaping and constructing the power-relations within the field (Brint & Karabel, 1991). This provides the opportunity for stronger organizations to impose themselves during institutional rule making and provides a source of institutionalization at the centre of the field (Ibid). In a similar vein, other scholars such as Hoffman (1999) have drawn attention to the occurrence of “institutional war” juxtaposed against the isomorphic dialogue as associated with DiMaggio & Powell as well as Meyer and the most well-known research within sociological institutionalism in general. Hoffman (1999) takes the starting point that institutional change is the result of transition within three different aspects of institutions: the normative, regulative, and cognitive. As such he is generally aligned with DiMaggio & Powell (1983) who points to three similar structures when theorizing isomorphic change. This position by Hofmann is also fully aligned with both Dacin et al. (2002) and Hoffman & Ventresca (1999) who also adheres to this ontological starting point. Either of these three may be dominant, but they coexist and are interrelated (Hirsch, 1997). Through this Hoffman argues that organizations based on their own interests compete about issue interpretation and which of these three aspects that should dominate the institutional setting and thus what can be considered legitimate action. By investigating the US chemical industry, he shows that organizations attempt, and sometimes succeeds, to exercise power in order to define issues and appropriate action.

This branch of sociological institutionalism is mostly referred to as “entrepreneurial institutionalism” as it emphasizes the ability of individuals and organization to leverage bright ideas and favorable power relations as a means to direct institutional change. This part of institutional theory provides a framework that attempts to identify the institutional and organizational conditions under which capacity for action and agency arise. Greenwood & Hinings (1996) argue that organizational density, power dependencies, and value commitments all interact to either enable or constrain institutional entrepreneurship. These conditions may themselves be subject to change due to market competition. The degree of competition, and the basis on which it occurs, is itself important in determining whether enabling environments occur (Greenwood, R. & Hinings, 1996). This type of literature thus tries to overcome what is seen as overly structuralist institutional theory (Oliver, 1997) while also bringing institutional theory into economic and management literature which emphasize a strive for competitive advantage, strategic resource allocation, and rational choice. It has also brought attention to the impact that entrance of new actors or the exit of incumbents may have on the organizational field and the evolution of the institutions in which they partake.

In a study based on the case of a rape crisis center in Israel Zilber (2002) finds confirming evidence that issue interpretation is an important part in shaping institutionalized practices within organizations. In accordance with the framework of institutional entrepreneurship Zilber (2002) argues that institutions should not only be studied at the structural macro-level, but that the role of changing compositions of actors and organizations within a field should be investigated as a source institutional change. Institutions should thus be studied as a process, rather than as a property (Zilber, 2002). Zilber shows that organization members can be carriers of institutions by infusing actions with meanings through interpretation. Former institutionalized practices may be reinterpreted by new actors, infusing them with a new meaning which connect differently with actors and actions, thus spurring institutional development. These ‘micropolitics of institutional change’ (Zilber, 2002) are important mediators of the structural forces found at the field level. A central takeaway from the literature on institutional entrepreneurs is that new actors may question and erode existing

institutions which provides the space for new interpretations and a reorientation of institutionalized practices (Battilana, Leca, & Boxenbaum, 2009).

Building on this literature connecting the role of agency with the wider structural implications of institutionalization the role of power-relations between organizations has been explored (Greenwood & Suddaby, 2006; Lawrence, Winn, & Jennings, 2001). This part of the literature is where the role of “institutional war” is really explored and investigated (Moe Fejerskov, 2016). In a study of the “Big Five Accounting Firms” Greenwood and Suddaby (2006) shows powerful organizations are able to engage in a concerted effort to promote institutional development in their direction. While several different types of power can be exercised by organizations (Lawrence et al., 2001), depending on the power asymmetry present in the organizational field, the continuous use of discourse has been emphasized as a key tool for organizations to leverage potentially powerful positions in a way that impacts the direction of the process of institutionalization (Greenwood & Suddaby, 2006; Hoffman, 1999; Hoffman & Ventresca, 1999; Lawrence et al., 2001).

This perspective have been further extended by research investigating how collaboration among organizations can promote certain forms of institutionalization (Lawrence et al., 2002; Zietsma & Lawrence, 2010). This rendition of sociological institutionalist literature, is still broadly within the “institutional entrepreneur” branch as it is mainly preoccupied with the micro-foundations of institutionalization and the role agency plays in this. It is also known under the heading of “institutional work literature” (Lawrence & Suddaby, 2006; Moe Fejerskov, 2016; Zietsma & Lawrence, 2010). Some of this literature argues that collaboration among organizations that are highly embedded can be a source of institutional change at the field level if the “proto-institutions” arising out of these collaborations diffuse properly (Lawrence et al., 2002). Boundary work is another central concept for these scholars arguing that organizations can change institutions if they succeed in recategorizing and reconfiguring the social and symbolic boundaries that constitutes the institutions (Lawrence & Suddaby, 2006). Such reconfiguration of boundaries means that the coverage of the institutions might shift such as moral and socio-economic boundaries and physical and political

location. If organizations for example are able to extend the moral boundary and the political location of an institution or institutionalized practice, then they have engaged in “boundary work” which is a particular way in which organizations may impact institutionalization as a process.

Institutions can also change due to reasons that are, at least partially, exogenous to the organizational field and the individual organizations of which it is comprised. Deinstitutionalization can occur, and can turn out to be an important precursor to radical institutional change (Dacin et al., 2002; Oliver, 1992). Oliver (1992) identified three particular sources of pressure towards which institutions may be vulnerable. These are functional pressures, political pressures and social pressures. While the political and social pressures echo much of the literature discussed previously the functional dimension creates a stronger link to the natural world as the perceived utility of an institution may erode as competition for certain resources are intensified (Dacin et al., 2002; Oliver, 1992).

We have accounted for sociological institutionalism and how this body of literature can be identified into three broad schools: world polity literature, literature emphasizing the relation between organizational fields and the organization, and institutional entrepreneurship. We will now turn to how we can operationalize these different strands into an analytical framework for the purpose of answering our research question.

6.0 Analytical framework

“Conceptual models both fix the mesh of the nets that the analyst drags through the material in order to explain a particular action or decision and direct him to cast his net in select ponds, at certain depths, in order to catch the fish he is after.” (Allison, 1969: 690)

As our literature review of sociological institutionalism comes to an end, it should be clear that sociological institutionalism, as it is applied to organizational studies, is best understood as an extended family of research, which have in common a broadly defined theoretical orientation. The numerous lines of thought in sociological institutionalism share an interest in the relation between the organization and its social structure. Within this broad frame of common interest, we distinguish three key dimensions of differentiation. First, research differs on the extent to which contributions

perceives structure or agency as the key driver of organizational change. It naturally follows that that structure focused contributions applies the macro-level as the unit of analysis, whereas agency focused explanations often apply a unit of analysis that sits at the meso – or micro-level.

Consequently, structure focused explanations will focus on explaining top-down drivers of organization change, whereas agency focused explanations will focus on bottom-up drivers of organizational change. Another dimension is the extent to which the research focuses on explaining homogenization or heterogenization. The majority of the literature has been so preoccupied with explaining homogenization that their models do not allow for the explanation of heterogenization. Therefore, the relatively recent contributions that allow for the observance of institutional and organization heterogeneity are important, because they enable the explanation for organizational uniqueness.

Sociological institutionalism delivers a useful framework for understanding contemporary organizational change. Indeed, the purpose of the theoretical literature review has been to provide us with conceptual lenses so that we can explain why the Danish state's approach to development finance has evolved in the direction of an increased use of blended finance. Sociological institutionalism does not allow for proving causal mechanisms. Instead, we can use it as a tool to enable deep qualitative investigation of explanations of the increased use of blended finance in the Danish development finance context. Deep qualitative investigation, then, can take us closer to the root causes by assessing and discussing events embedded in their contextual settings.

To provide deep qualitative investigation and explanation of why Danish development finance has evolved towards the increased use of blended finance, we find it useful to apply different explanatory models are each embedded in a broad theoretical position of sociological institutionalism. Two reasons account for the usefulness of different explanatory perspectives to explain organizational change in Danish development finance. One, sociological institutionalism contains many debates. It would not be possible for us to meaningfully capture the entire literature in one approach. Hence, the

development of several perspectives yields a useful way of structuring our argumentation. Second, and inter-related, at a deeper level, it appears practically impossible for one specific theoretical perspective within the social sciences to capture all relevant facts that explain a certain phenomenon. Hence, as social science researchers, we use conceptual lenses to sort and apply meaning to the empirics. As Allison (1969: 689) argues in his seminal piece on conceptual models to explain the Cuban missile crisis: *“What each analyst sees and judges to be important is a function not only of the evidence about what happened but also of the conceptual lenses through which he looks at the evidence”*. No one has explained the increased use of blended finance in Danish development assistance before. Hence, we have no indication what the most important facts to assess and interpret are. To capture as great a deal of the relevant explanations as possible, we want to include several perspectives each focusing on different parts of what can be empirically observed. In doing so, we will seek to cover the broad debates in sociological institutionalism so that we do not miss something that might prove to be important.

Hence, the principle purpose of our thesis becomes that of exploring some of the fundamental assumptions and categories employed by different perspectives within sociological institutionalism in explaining organizational change. Only by employing several can we reach a deeper understanding of an explanation of what drives change in the organization field of Danish development finance, even though we can never reach a determination of cause and effect. The analytical frameworks we use to sort observable facts have very significant consequences for the content of our explanations. Hence, in what follows we will present three explanatory models that each focuses on different drivers of change within the school of sociological institutionalism. Together, they cover the broad dimensions of discussion within sociological institutionalism. We must emphasize that they potentially overlap. This would only indicate that there indeed are important explanations to be found where an overlap takes place. Furthermore, different aspects might also prove to be mutually exclusive. This does not invalidate our explanations. It merely highlights the different focuses applied by different perspectives within sociological institutionalism.

Our first approach is embedded in the world polity perspective of sociological institutionalism. Applying this literature to our case we develop what will be referred to as the analytical framework of international aid paradigms. The second takes place within the perspective dealing with interaction between the field and the organization and will be referred to as the analytical framework engaged with the interaction with the development finance – and private sector fields. Our third and final is embedded within the literature on institutional entrepreneurship focusing on embedded agency. Applying this perspective to the case we develop what will be referred to as the analytical framework of agents of change. By applying these three propositions we move step by step from a structure emphasizing, macro-focused explanation towards meso and micro level explanations in the second and third proposition. While the world polity perspective is pre-occupied with assessing homogenization, the two other perspectives allows us to both observe patterns of heterogenization and homogenization. Hence, we cover the most relevant areas of inquiry within sociological institutionalism.

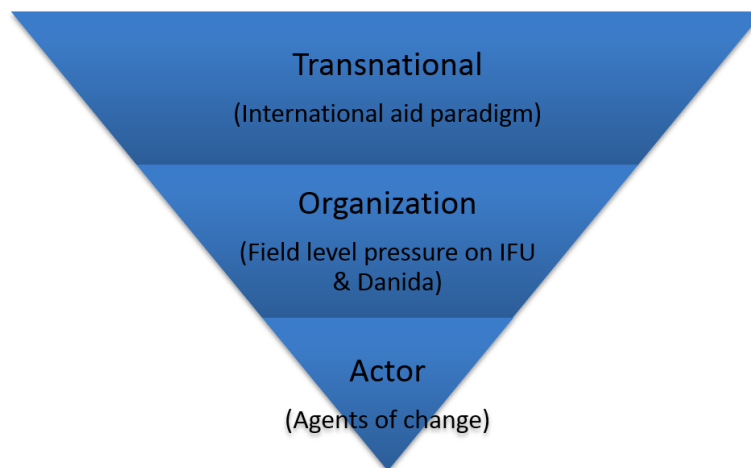


Figure 6 Our three analytical frameworks occupy each their spatial level, Own creation

6.1 Analytical framework 1: International aid paradigms diffusing to national policy

We construct an analytical framework on the basis on the world polity literature of sociological institutionalism that we coin *international aid paradigms*. The world polity perspective of sociological institutionalism explains organizational change by referring to the ability of institutions to transcend national and cultural boundaries. As accounted for in the literature review, this body of literature has

in common a focus on structure-based, top-down explanations for organizational change (Drori et al., 2006; Meyer et al., 1997; Strang & Meyer, 1993). To the world polity researcher, organizations change because they need legitimacy. Further, world polity is slightly more constructivist in its approach than the rest of sociological institutionalism. Thus, to a greater extent than the rest of sociological institutionalism, the world polity approach applies an understanding of institutions as ideas, norms, and culture. A large part of the world polity literature explains organizational change by referring to the diffusion of a modern notion of progress. A key argument in the literature is thus that institutions that become theorized, abstracted, and have standardized language attributes attached to them, are better adapted to diffuse than the ones who have not (Djelic, 2004; Djelic & Quack, 2012; Drori et al., 2006; Meyer et al., 1997; Strang & Meyer, 1993)

This implies that we use the world policy literature on the international aid community to understand how international aid paradigms are created and what enables them to diffuse. This means that we look towards global governance frameworks and actors' interaction with them through for example professional networking to see how ideas, norms, and culture emerge and become abstracted and theorized. From our literature review on aid markets and aid modalities, we know that the emergence and increasing dominance of the development effectiveness paradigm and the emergence of the blended finance concept is closely related. Thus, we will analyze and interpret the relevant global governance frameworks to see how they carry and enable the emergence and increasing dominance of the development effectiveness paradigm and the corresponding blended finance concept. We need to establish whether the institutions of the development effectiveness paradigm and blended finance are theorized, abstracted and standardized to an extent that enable effective diffusion across national and cultural boundaries. Finally, in order to establish whether diffusion of the development effectiveness paradigm indeed can explain the increased use in blended finance in Danish development assistance, we need to show that Danish development assistance understands and theorizes about the blended finance concept in the same manner as the international aid community.

6.2 Analytical Framework 2: IFU, Danida, and pressures from the development finance – and private sector fields

We construct an analytical framework on the basis on the perspective of sociological institutionalism that focus on field level pressures and corresponding isomorphism as a conditioner for organizational behavior and change. We coin the analytical *framework pressures from the development finance – and private sector fields*. This perspective of sociological institutionalism emphasizes the way in which the organizational field provides an institutionalized context that condition the ideas, output, and structure of organizations. In its quest to maintain legitimacy and subsequent survival, the organization conform according to coercive, normative, and mimetic pressures. They can both be isomorphic, and thus lead to homogenization. They can, however, also lead to heterogenization. (Beckert, 2010a; Dacin et al., 2002; Dimaggio & Powell, 1983; Scott, 2016). Hence, this perspective explains organizational change as an outcome of the institutionalized context that dominates the organizational field (Ibid.)

This implies that we use theories of field level pressures and isomorphism on the organizational configuration of Danish development assistance to assess how the organizational fields of Danida and IFU conditions and shape their behavior and change. Since IFU's core activity involves the inclusion of private companies into the provision of development assistance, we need to assess not only how the development finance field conditions and shapes the behavior of IFU and Danida, we also need to look at how the Danish private sector field conditions and shapes the behavior of IFU. We will do so by assessing the dominant frameworks for appropriate behavior within the development assistance field and the Danish private sector field. This will entail assessing the framework for appropriate behavior within the organizations that "*in aggregate constitutes a recognized area of institutional life... and produce similar services or products*" (Dimaggio & Powell, 1983:148) within private business and the provision of development assistance. In this case it is important to note that as public agencies the field of development assistance is very politically sensitive. This is especially the case for Danida that is under direct political control, which means that Danish politics and political legitimacy is an inherent part of the development assistance field.

By understanding the purpose and character of IFU and Danida, we will be able to then assess what kind of field level pressures are challenging the legitimacy of IFU and Danida and thus conditioning organizational behavior. This is so, since institutions structure the appropriate behavior in the field, and so we can expect the organizational behavior in the field to be conditioned by the behavior of other organizations due to the organization's quest to maintain legitimacy and thus ensure organizational survival. Understanding whether field pressures leads to mimetic, normative, and/or coercive isomorphic behavior of IFU and Danida will enable us to explain how field conditions can explain the increasing use of blended finance in Danish development assistance. This implies that we will interpret events and interview data that assess the changes towards increasing use of blended finance in Danish development assistance in relation to the frameworks of appropriate behavior in the fields of development assistance and the Danish private sector.

6.3 Analytical framework 3: Agents of change in Danish development finance

The third perspective we wish to explore is that of embedded agency. This will draw from the extensive literature on institutional entrepreneurship which emphasizes the role of power relations (Brint & Karabel, 1991), interests and the ability to define issue interpretation (Hoffman, 1999), actor composition including the entrance of new and peripheral actors (Battilana et al., 2009; Zilber, 2002), and organizational coalition building (Greenwood & Suddaby, 2006; Lawrence et al., 2002). We will coin this framework agents of change.

For the purposes of our investigation into the changes that have occurred in Danish development assistance, we will pursue two types of agency: organizations as agents of change and individuals as agents of change. This will provide a clearer perspective on the organizational and individual resources that have been leveraged to facilitate this change and identify important aspects of potential key actors in the Danish development finance scene.

The operationalization of such theory therefore has to be structured alongside these two dimensions. To investigate the role of organizations as potential agents of change we want to engage with inter-organizational collaboration. The first step in doing so will be to identify possible organizational relations that may be particularly important in Danish development finance. We expect to find such relations as IFU is an organization that conducts all its activities with partners. It will thus allow us to investigate the relations between IFU and their most important partner organizations. Understanding these relations will rely heavily on interview-data, but will also draw from official documents outlining strategies, organizational structures, and providing an insight into inter-organizational alignment.

We want to investigate the conditions that have led to such collaboration, as this will tell us about the reasons for such collaboration and the nature of the involvement which is important in determining which organizations that can act as entrepreneurs, if any (Lawrence et al., 2002). Once we know the circumstances for organizational collaboration it will be easier to assess whether they express characteristics associated with institutional innovation. Examples of such characteristics that we are whether these organizations are able to draw from each other's capacity to construct and/or extent new practices in a politicized setting (Greenwood & Suddaby, 2006). The dimensions of potential resource asymmetries present in inter-organizational collaborations as these empower certain organizations with the ability to define issues and solutions (Greenwood & Suddaby, 2006). We do not confine ourselves to an exhaustive list of such characteristics, but instead bear the literature on institutional entrepreneurship in mind as we investigate this avenue of potential investigation. This is in line with the concept of an analytical framework that is a much more loosely applied approach compared to direct theory testing. Engaging with the specific context of such inter-organizational relations is important to identify whether such factors enabling entrepreneurship have been present (Greenwood & Suddaby, 2006; Suddaby & Greenwood, 2009).

The second dimension will focus on agency on the level of the individual. In this case the institutional entrepreneur is not an organization, but rather an individual within the organization. The theoretical backbone will be largely the same as institutional entrepreneurs are expected to be resourceful,

reflective and culturally competent regardless of whether the entrepreneur in question is an organization or an individual. We thus aim to complement the organizational perspective with insights into the role of individuals and how the composition of people is important for organizational behavior and the interpretation and implementation of institutionalized practices.

As has been described individuals with the capacity to enact change and the ability to be innovative tends to be either new entrants into the field, or entrants from the periphery of the field, making them more likely to question existing practices and develop new ones (Battilana et al., 2009; Lawrence & Suddaby, 2006; Zilber, 2002). We will therefore look at the composition of employees in IFU and Danida and investigate whether the employee composition holds any answers to the change we have observed in Danish development assistance towards the use of blended finance. This again entails engaging with the conditions under which agency might be enabled and the characteristics of certain individuals that fit with theoretical insights about the ability to act as agents of change. We therefore need to identify whether employee compositions have changed, the circumstances under which this have occurred, and evaluate the characteristics of the new employees to arrive at an informed conclusion regarding the explanatory abilities of individual agency.

6.4 The broad approach to analytical frameworks guides the exploratory case study

Our three analytical frameworks are all extrapolated from sociological institutionalism but differ in respect to the primary explanatory dimensions they focus on. Their different geographical focuses translate into a pre-occupation with either structure or agency as the primary determinant for organizational change. Similarly, they differ in their ability to describe organizational homogeneity and heterogeneity. This means that our analytical framework covers different positions within these two prominent debates along which theoretical discussions of sociological institutionalism weave back and forth. It is a core objective of ours that our framework covers the broad streams of academic perspectives and debates within sociological institutionalism. This is so, since a broad framework guides our exploratory case study. A more narrowly confined analytical framework would impede the exploratory nature of our study as well as it would constrain our search for empirically sound explanations to the extent that we would likely be forced to ignore relevant empirical aspects in our

explanation. We therefore employ a broad framework with the ability to uncover the feasibility of each of these perspectives and show how much they each can contribute in explaining IFU's and Danida's move towards blended finance. We end this section with a table that summarizes our three analytical frameworks. It goes to show that we indeed cover the broad standpoints and perspectives within sociological institutionalism. The next section will assess the changes towards blended finance in Danish development assistance

Analytical framework	Agency	Structure	Homogenization	Heterogenization
International aid paradigms	No	Yes	Yes	No
Interaction with the development finance and private sector fields	No	Yes	Yes	Yes
Agents of change	Yes (but embedded in structure)	Yes (but limited)	Yes	Yes

Table 3 Analytical frameworks, theoretical summary

7.0 Changes towards blended finance in Danish development assistance

We conduct two analyses to answer our research question: *“What are the changes towards blended finance in Danish development assistance, and what explain these?”* As laid out in the previous section that outlined our analytic framework, we will apply three perspectives of sociological institutionalism as distinct analytic frameworks to answer the second part of the research question, i.e. *“what can explain these?”*. Yet, if we are to meaningfully apply these perspectives to organizational change, we need first to establish what indeed constitutes organizational change towards the increased use of blended finance. Therefore, the purpose of this first part of our analysis

is to gain an understanding of the changes that we can observe towards the increased use of blended finance in Danida and IFU.

It has been necessary to apply an exploratory approach to the assessment of change towards the increased use of blended finance in Danish development assistance. The first step has thus been to establish the set of organizations of interest. We deal primarily with IFU, the business oriented arm of Danida, and their interaction. Yet, we cannot escape their embeddedness in the broader political and strategic context of Danish development cooperation. Hence, we have gone about the task by observing organizational change in IFU, Danida, and in the broader Danish development context by using an exploratory approach that combines interview data with document analysis. This iterative process has led us to establish patterns of organizational change within IFU and Danida towards the increased use of blended finance. We have taken a pragmatic approach to the time frame that scopes our change assessment. Even so, we have come to focus on organizational change towards the increased use of blended finance that IFU and Danida has incurred within the last five years. We only include events that lie further back than five years where we find that they are useful in highlighting that what we observe today is different from the past.

Our analysis will proceed as follows: First, the section will start by sketching out the overall strategic changes that the Danish approach to development assistance has incurred recently. With an understanding of the overall strategic changes we observe in place, we are better equipped to proceed to the organizational changes we can observe in IFU and Danida. Second, we proceed to assess the increasing collaboration between a group of Danish pension funds and IFU which has enabled the establishment of increasingly large thematic funds that IFU manage. Third, we describe the organizational changes that IFU has incurred in to attract the pension funds towards investing in the thematic funds. Fourth, we describe the changes that Danida has incurred recently leading to a change in its strategic framework and relation to IFU.

7.1 Aid's changing purpose: catalyzing private investment

Two documents provide the broad strategic frame of Danish development financing: the Danish development policy and humanitarian strategy *The World 2030* from 2017, and the Taksøe-report; a review of Danish Foreign and Security Policy from 2016.

The title *The World 2030* tellingly references the UN 2030 Agenda for Sustainable Development to signal that Denmark acknowledges that: "*The UN's SDGs provides a new international framework for development cooperation*" (Danida, 2017, 1). This implies that Addis Ababa provides the framework for development finance, as Addis Ababa established the UN approach to financing for development and the SDGs. The importance of Addis Ababa is explicitly stated in the Taksøe-report: "*...the agreements on... development financing in Addis Ababa set the scene for an unprecedented and close cooperation between public and private partners in mobilizing financing*" (Taksøe-Jensen, 2016, VI). Accordingly, the *World 2030* states that the Danish private sector is a key partner for Danish development assistance, because the private sector enable the mobilization of finance, knowledge, and competencies (Danida, 2017, 12). In effect, the Danish private sector has become a key actor in Danish development cooperation, because it is the key source of financing for development: *This... represents the end of perceiving development as a task, which first and foremost requires development aid*" (Danida, 2017, 2). Subsequently, the purpose of aid is redefined: aid must catalyze additional private capital towards development objectives. The role of aid as catalyzer is only mentioned once in the 2012 Danida strategy, and not before that. The role of the private sector are in the previous strategies confined to narrowly defined areas of development policy and is nowhere as prevalent as in the current strategy (Danida, 2010, 2012, 2017; MFAD & Danida, 2000, Danida 2003)

7.2 Incremental change: increased size and scope of thematic funds

IFU and the MFAD have been in contact with a group of Danish pension funds for a little more than ten years. The first involvement of the MFAD took the form of a grant towards increasing the sustainability aspects of a Vietnam oriented private equity (PE) fund that PKA and Pensionskassen For Børne- Og Ungdomspædagoger (PBU) invested in in 2007 (MFAD, 2007; Juhl Pedersen, 2018). Around

this time, IFU started co-investing with Danish pension funds in similar PE-funds(IFU, 2010). As co-investment activities intensified, the idea of creating IIP emerged (IFU, 2012).

IIP is an investment facility. This means that PKA and PBU put aside a total of DKK 500 million that IFU can use to provide additional capital to large investment projects. The benefit is that the project, if needed, can access additional funding from IFU in a one-step solution without several rounds of due diligence and appraisal (Ibid.). IFU identifies and recommends the investment to IIP's investment committee, where representatives of PKA and PBU are represented.

A tipping point in the relation between IFU and the pension funds is the establishment of the first IFU managed thematic fund financed by a mix of public and private capital. DCIF was established in 2014, and five institutional investors committed capital: PensionDanmark committed DKK200million, PKA committed DKK200million, PBU committed DKK125million, Dansk Vækstkapital committed DKK150million, and Aage V. Jensen Charity Foundation committed DKK100million. Thus, private capital committed a total of DKK 775 million. Public finance covered the remaining DKK 525 million; IFU committed DKK250million while the Danish state contributed DKK275million (IFU, 2014a; MFAD, 2017b). Hence, the total size of DCIF is DKK1.3billion representing a split between public and private capital of 40%-60%.

DCIF is a closed-end fund expected to be fully invested by the end of 2018. The investment period of an investment will be six to eight years. DCIF expects annual returns on its investments of twelve per cent but applies a preferential return model that promises the institutional investors the first six percent of returns should the investment deliver below expectations. Only hereafter will the state receive proceeds from the investment(Covergence, 2017; IFU, 2014; Möger). DCIF will only invest as a minority investor and its investments will be provided in the form of equity or mezzanine. It expects a mobilization factor of six. This means that for every DKK100million DCIF invests into a project, the total investments enabled in this project should be around DKK600million. Thus, it is expected that the total investment size will be in the range of DKK8-9billion (MFAD, 2017b).

DCIF has a dual purpose. First, DCIF's investments in projects that reduce greenhouse gas emissions should contribute to the reduction of global warming and other climate impacts. Second, DCIF investment projects should entail the promotion of the transfer of Danish technology, with the ultimate objective being that of supporting Denmark's position as a leader in climate technology as this market expands into developing and emerging markets (IFU, 2014a). DCIF is part of the Danish response and commitments towards UN 2009 Climate Change Conference in Copenhagen (COP 15) to mobilize USD100 billion in private and public funds to finance climate investments in developing countries (IFU, 2012; Nørgaard)

DCIF has a softer mandate than the entire IFU had at its establishment in 2014. In 2014, IFU's mandate was tied, which means that IFU could only invest in projects with a Danish commercial co-investor. DCIF's mandate was broader to include Danish commercial interest in any form thus including supply, offtake and management. In addition, DCIF was enabled to invest in all developing countries on the DAC list, enabling it to invest in countries like Brazil, Malaysia, Chile, Turkey, and Argentina, which had at this point ceased to be IFU eligible countries (IFU, 2012).

Both IFU and the pension funds perceived the DCIF-setup as a success and it was decided to set up another thematic fund (Kruse, 2018: 8). This time around, the theme was agribusiness: DAF was launched in 2016 with a total committed capital of DKK 700 million at first closing. The Danish state contributed DKK 88 million, while IFU contributed DKK 212 million. Private funds totaling DKK 400 million in first closing came from PensionDanmark (DKK200 m) and PKA (DKK 200 m). In second closing in May 2016, PBU contributed DKK 100 million increasing the total commitment to DAF to DKK 800 million (MFAD, 2017b). DAF has a similar structure and mandate as DCIF, except minor adjustments including: expected return of ten per cent as IFU's track record is not as good within agribusiness as it is within climate, as well an investment period of three years and DAF is hence expected to be fully invested by the end of 2019 (MFAD, 2014). DAF employs the same preferential return model as DCIF (MFAD, 2016; Möger, 2018)

The scale and scope of IFU's thematic funds will be significantly scaled up at the launch of the planned SDG-fund. Its structure is very similar to that of DCIF and DAF, however, its thematic scope is broader and the size of the fund is significantly larger. Both changes meet requests voiced by pension funds when evaluating DCIF and DAF. The SDG fund will target key sectors in which Danish business has a comparative advantage in seeking to promote the achievement of the SDGs through sustainable development. Initially, the SDG-fund was planned to launch in January 2018 (MFAD, 2016). Currently, the launch date is unknown but planned for Summer 2018 (Elkjær, 2018; Olesen, 2018; Nørgård, 2018; Kruse, 2018).

The state and IFU plans the total committed private capital to be DKK2.5billion to DKK3billion, which will be matched by IFU bringing the total size of the fund to be between DKK 5 and 6 billion. This represents a significant jump in size of the funds that IFU so far has managed. The SDG fund is expected to make around fifty investments in developing countries, generating an average investment ticket of DKK 120 million. That is a large figure compared to the average investment size for IFU and IFU managed funds in 2016, where the average investment size was DKK 45million. The plan is to establish a successor, once the first SDG-fund is fully invested. If successful, this system will be repeated continuously. This will ensure that institutional investors have flexibility in entering and exiting the funds. In terms of eligible countries and eligible investments, the same rules apply as to the IFU classic.

The partnership between a group of Danish pension funds intensifies as the scale and scope of the thematic IFU managed funds increases. This implies that private financing to an increasing extent fund IFU's activities. Thus, the increasing scale and scope of IFU's thematic fund constitute a change towards the increased use of blended finance. The IFU classic activities are also blending to the extent that IFU's public capital invests together with private commercial capital. The funds, however, have a significantly greater mobilization factor than the IFU classic instrument: the funds need a much lower amount of public capital to mobilize one amount of private capital. This change has happened over

the course of ten years, but it is only within the last five years, that the collaboration has intensified. The speed with which this change has happened is significant given that IFU and pension funds have distinct purposes: whereas the pension funds' purpose is ensuring the highest return possible of their pensioners' savings (Juhl-Pedersen, 2018; Möger, 2018), IFU has a development purpose. Indeed, IFU has changed its organization to adapt to the purposes of the pension funds. These changes have functioned as both pre-requisites and enablers of intensifying collaboration. Some of the organizational changes IFU has been able to incur as a semi-autonomous organization. Others it has had to negotiate with its owner, the MFAD. In the following, we will assess the organizational changes IFU has incurred internally to enable it to attract private investors. Secondly, we will assess IFU's changing mandate, which IFU has negotiated with the MFAD.

7.3 IFU changes towards looking like a private PE-fund

Total yearly investment covers how much IFU has contracted for during a given year. In 2016 IFU reached a record total yearly investment of DKK1.103billion, which represents a growth rate of 67 per cent between 2015 and 2016. In contrast, IFU's average yearly growth rate of investment contracted was four percent between 2007 and 2015 (IFU, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014b, 2015a, 2016).

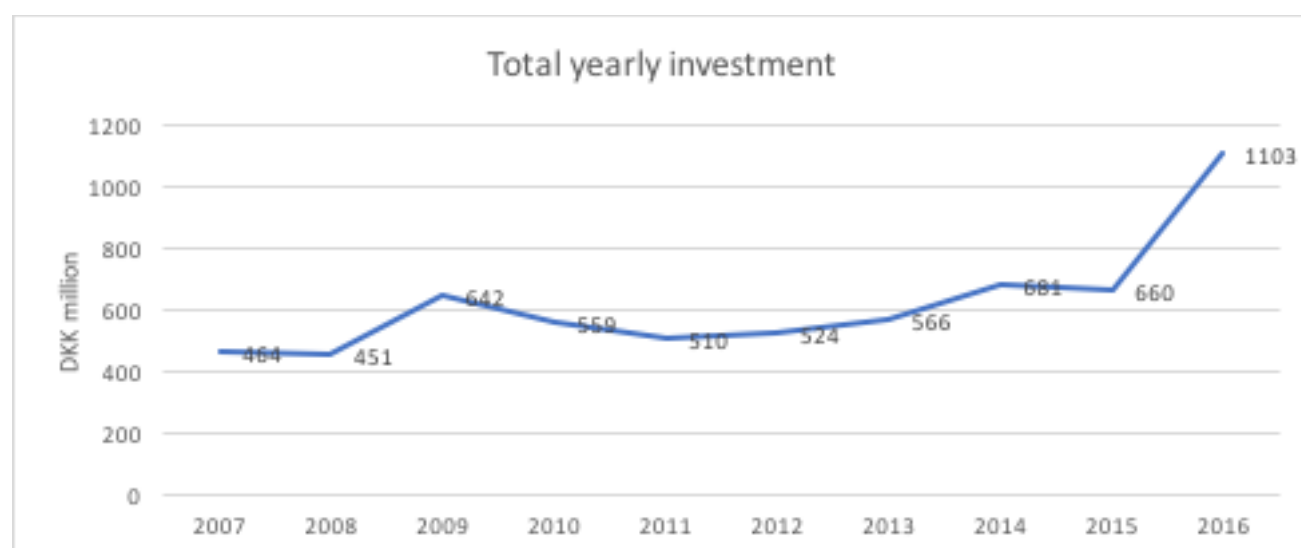


Figure 7 IFU Total yearly investment (IFU, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014b, 2015a, 2016). Investments contracted include all contractual commitments IFU has made during the year to disburse equity capital and loans.

The number of investments contracted has decreased every year between 2008 and 2015. This, coupled with increasing yearly investment, has led to continuous but significant growth in average investment size.

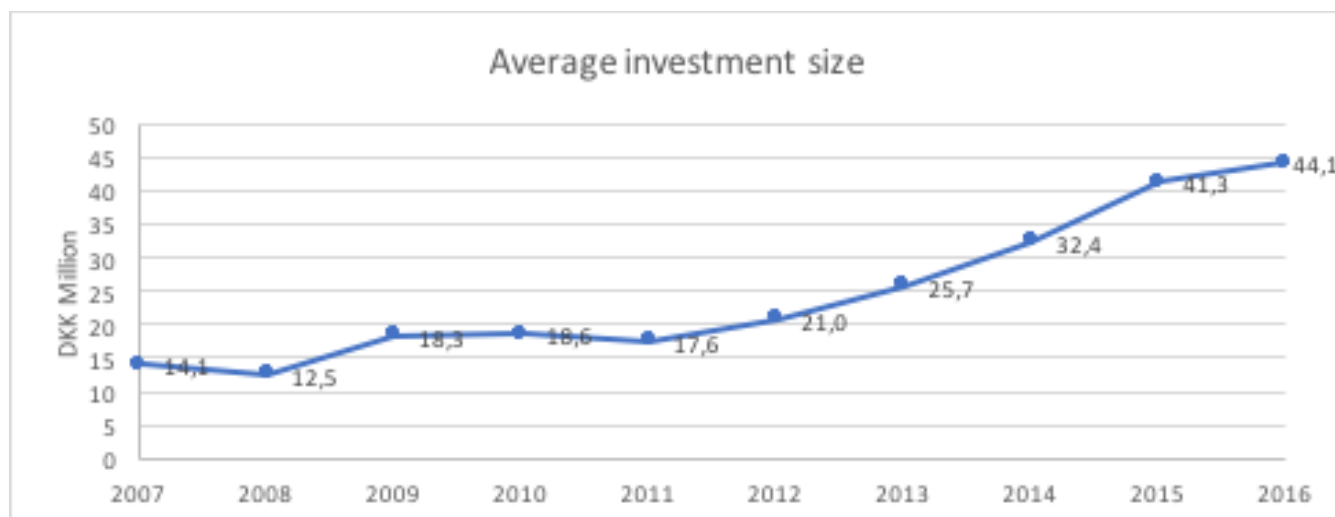


Figure 8 IFU Average Investment size (IFU, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014b, 2015a, 2016).

IFU's return on share capital investments have averaged 12 percent since 2011 (IFU, 2012, 2013, 2014b, 2015b, 2016). IFU often communicates its track record on returns on equity, because it levels the performance of private PE-funds (Harris, Jenkinson, & Kaplan, 2014; Preqin, 2017). It is a prerequisite for pension funds that IFU has a track record on par with alternative investments opportunities, like PE-funds, as the pension fund's objective is to ensure the highest return possible (Nørgård, 2018; Kruse, 2018; Möger, 2018; Juhl Pedersen, 2018). Yet, before 2011, track records on share capital was substantially lower. For example, in 2010, IFU's return on capital was only 6 percent (IFU, 2011). IFU's return on equity has historically been at 2010 – level and lower (Kruse, 2018; Nørgaard, 2018), and has thus been on par with other Nordic countries' DFIs whose average returns are about 4 per cent (Norfund, 2015, 2016, Swedfund, 2014, 2015, 2016). IFU itself explains the change as an outcome of greater focus on return (Kruse, 2018), and better skills in ensuring a profitable investment: *"...we have become better at making investment and excluding those investment opportunities where the risk is simply too great and where our experience tells us that it will go wrong at some point"* (Nørgaard, 2018: 6).

Finally, IFU has gained a management that increasingly ensembles one of a private PE-fund. In 2013, IFU got a new CEO, Tommy Thomsen. He held a substantially different professional background than his predecessor Finn Jønck. Whereas Finn Jønck was a diplomat throughout his entire career, having held various positions in the MFAD and the World Bank (Globalnyt, 2013), Tommy Thomsen has had a long career in the shipping industry in which the vast majority was spent in Maersk (Ernst, 2014). During the last ten years, we observe a similar change in the composition of the professional background of IFU employees at the vice president (VP) level. Within the last three years, three external professionals have been hired to assume a VP position in IFU. They all held prior careers in Maersk or its affiliate Damco. For example, the position as the VP of Climate investments which handles the investments made in DCIF was changed from a long time IFU employee to an external professional, Reik Haahr Müller that previously held various infrastructure related positions in Maersk (LinkedIn, 2018a). Steffen Schiottz-Christensen has become the new VP of the North Asia division coming from a long career within shipping in which he has been both chairman and CEO of DAMCO North Asia (LinkedIn, 2018b). Similarly, the new VP for the Latin America division, Helle Bjerre, has come to IFU from a career within Nordic Tankers and Maersk Line (Bloomberg, 2018). This signals that private sector competencies are being valued highly when new employees are hired at the management level. The new CEO profile is an especially noticeable change as Tommy Thomsen has been hired on the basis of his private sector remit. Tommy Thomsen knows how to run a company while the former CEO knew how to run a public-sector organization.

IFU is growing its yearly total investment, the size of its average investments is continuously increasing, it has increased its return to lie on par with those of private PE-funds with developing market portfolios and hired professional with extensive experience from the private sector. Indeed, in the way it invests, IFU is changing towards looking like a private PE-fund. Even though these changes have been initiated and carried through by IFU itself, the changes are likely not to be as remarkable if its owner, the Danish state, would not have approved of this change. It is thus useful to assess how the relation between IFU and Danida, as acting in the interest of the Government, has changed

throughout the last five years. Thus, the next subsection, will assess how Danida has aided IFU in the process of attracting private investors by softening its investment mandate.

7.4 Changing mandate enable IFU to pursue growth strategy

IFU has actively advocated for a softened mandate since 2013. Softening the mandate was perceived by IFU as a prerequisite to achieve its new strategy *Shifting gears for higher impact*, which was a strategy initiated by the new CEO, Tommy Thomsen. *Shifting gears for higher impact* contained the goal to double IFU's investment activity from DKK 550m in 2012 to DKK1,100m in 2018, and to increase IFU's net income to DKK150million in 2018. A central prerequisite of achieving its strategy was therefore to broaden the mandate to include a softened Danish interest requirement and to permit investments in all DAC countries, as this would enable IFU to pursue a greater variety of investment opportunities (IFU, 2013). In its annual report, IFU further argues that IFU's mandate is narrower compared to other Danish government organizations and European DFIs. IFU perceives its strict mandate as a threat to its ability to "*promote development in countries with a large poor population and to gain first mover experience in growth markets for the benefit of Danish partners*" (IFU, 2013, 16). This is so, since IFU will in the future not be mandated to invest in countries like China, Thailand, and Colombia, due to the growth these countries have incurred (Ibid.).

IFU's efforts payed off, and in IFU's annual report 2014, IFU report to have achieved a broadened mandate in its IFU managed funds, DCIF and the envisaged DAF. They also report to have continuous discussions with the Danish Government over broadening the mandate, and that they will continue such discussions in 2015 (IFU, 2014b).

In 2015, the entire IFU mandate is softened. In May 2015, the Finance Committee of the Danish Parliament agrees to soften IFU's investment mandate in two aspects. First, IFU can now invest in all countries on the OECD-DAC list of ODA recipients(MFAD, 2017b). This enables IFU to invest in middle-income developing countries like Brazil, Malaysia, Turkey, and Mexico as well as to maintain access to China, Thailand, and Colombia (IFU, 2015b). Yet, at least fifty per cent of IFU's investments should be placed in a country that has a Gross National Income (GNI) per capita below eighty per cent of the

upper limit of Lower Middle Income Countries (LMIC), which currently lies at USD3,300 (MFAD, 2017a, 6).

Additionally, IFU's mandate was broadened from being restricted to only make investments in projects with a financially engaged Danish partner to being able to also invest in projects which instead have a *Danish economic interest* attached. A Danish economic interest covers the involvement of Danish supply, know-how, technology, management or services to the project, a Danish operating, maintenance, or off-taking agreement, or a project using state-of-the-art Danish technology (IFU, 2015b). This means that IFU classic-investments are subject to the same investment mandate, as IFU managed funds' investments are.

IFU's investment mandate became completely un-tied per January 1st 2017. This means that IFU no longer have to identify a Danish commercial interest in a potential investment.

Hence, IFU has over the last five years experienced a significant softening in the restrictions applying to what kinds of investments it can enter into. Its activities have now become completely untied, and they are enabled to make investment in all DAC-countries. The softened mandate is in line with the strategic objectives of IFU. Yet, the softened mandate is not something IFU could achieve on its own, it is something that its owner, the state can only enable. This shows that the state objectified by Danida supports IFU's strategic objectives of growing, partially through the involvement of private investors. Hence, it also shows a change in objectives of Danida, which can be traced back to the ideas that inform Denmark's approach to development cooperation and humanitarian assistance that we assessed in the beginning of this section. Hence, what has changed in IFU is not a consequence of an isolated change process in IFU that affects its immediate stakeholders: change processes that happen in other central organizations of Danish development cooperation also affect IFU. Indeed, Danida's recent strategic change of its business platform has enabled a change process within IFU too. In the following sub section, we will thus assess the strategic change of Danida's business platform, what led to the decision to change, and how it has affected IFU.

7.5 Danida's changed business platform expands IFU blended finance modalities

Danida has a long tradition of running programs that entail a partnership with Danish enterprises, and in which Danida provide financial support to promote and support Danish private sector activities in developing countries (Danida, 2014). Yet, the architecture and objectives of Danida initiatives have changed, as the overall strategy and objectives of Danish development assistance has changed. The umbrella of Danida business related programs, the Danida Business Platform, received an overhaul in 2015, when the strategy for Danida's Business Platform was revised in the document entitled *Danida's Erhvervsplatform, platform for dansk erhvervslivs deltagelse i Danmark's udviklingssamarbejde* (Danida, 2014). The document contained a strategy and a framework for Danida's current and new business oriented programs. Two conditions of aid support the structure of the business platform. First, the strategy identifies the purpose of the Danida Business Platform to be that of catalyzing sustainable economic growth. This entails that the initiatives of the Danida Business Platform are additional, which coins the situation when Danida's activities enable initiatives that would otherwise not have taken place. Additionality is achieved by identifying and facilitating business opportunities and reducing risk (MFAD, 2015b). Second, the activities of Danida's business platform should support private sector driven economic growth in areas, where an overlap between development challenges, Danish interests, and Danish competencies are identified (Ibid.). The outcome of the strategy is that all programs that form part of Danish development finance are structured to support different phases in the build-up of a commercially viable and sustainable business; from idea to commercially viable operations. The model for Danida's Business Platform is depicted below. It should be emphasized that only two programs, the PDP-function and the Danida Partnership programs are new, the others have merely been mapped to support the idea of Danida supporting business from its conception to it is fully operational.

	Identification	Development	Implementation	Scale
Activity	Facilitating knowledge about development needs and business opportunities Market research	Feasibility studies Innovation and adaption of the product, service/ business model Searching for a partner	Pilot projects and capacity building /training Technology and knowledge transfer	Investments Innovative partnerships Financing
Danida's Business Platform	DB Delegations High potential projects	DB Explorer IFU SMV facility Challenge funds High potential projects	Business program Partnership facility Project development facility IFU SMV facility IFU CSR training fund	DBF IFU DAF DCIF The Arab Investment Fund The Ukraine Facility

Figure 9 Structure of Danida's Business Platform. The platform follows the life-cycle of a business until scaling. Programs colored blue have always been in IFU, while programs colored red has been transferred to IFU within the last four years (MFAD, 2015a)

The cause of the strategic overhaul is to be found in the bad evaluation the Danida Business to Business Program (B2B) received in 2014 (Globalnyt, 2015). B2B provided grants of up to DKK5million to Danish companies and their business partner in eligible countries in accordance with three phases on the path towards commercial sustainability. Danida covered travel costs associated with identifying the right partner in the contact phase. In the pilot phase, Danida covered costs associated with feasibility studies, while in the project phase, Danida provided support associated with deepening the partnership (Danida, 2014). The B2B program allocated grants totaling DKK1,088. It was the biggest business alliance program in the Nordic countries (Ibid.). B2B was in operation from 2006 to 2011, after which the Danida Business Partnership facility (DBP) replaced it (Danida, 2014).

It is normal practice to commission external evaluation of Danida programs to assess its effectiveness in achieving development goals. The evaluation of the B2B program, which was carried out by external consultants, evaluated the B2B program in accordance to its objective of contributing to

poverty reduction by promoting economic growth and social development in developing countries through enhancing long-term, sustainable and commercial partnerships aiming towards a strengthening of local business development (Danida, 2014). The evaluation concluded that the B2B program had not been efficient with respect to generating direct – and indirect employment, which is a key indicator of development outcomes. Neither could technology – and knowledge spillovers be demonstrated which are also key indicators of development impact. The conclusion was that B2B had been an ineffective tool in the promotion of socio-economic benefits in the local communities, and consequently, that poverty reduction had been minimal (Danida, 2014). Finally, the evaluation noted that many of the factors that caused the inefficiency of the B2B program, such as over-financing, a weak monitoring system, and lack of thorough assessment of the business case, was also characteristic of its successor, the Danida Business Partnership (DBP) program. The evaluation echoed throughout the Danish development finance landscape. As a direct consequence of the evaluation, Danida choose to temporarily suspend all its business oriented programs in 2014 (Globalnyt, 2014).

Two new programs were announced with the new Danida Business Platform as the successors or replacements of the DBP. The two programs are the Partnership Facility and the Project Development Facility (PDP). While the Partnership facility will function as a direct successor of the DBP, the PDP will aid in the identification and development of bankable projects, especially climate-related and infrastructure projects, in developing countries. The PDP function is administered by IFU, entailing that IFU has full authority to administer its funds(MFAD, 2015a, 2016b). The Danish development aid project has allocated DKK 50 million in 2016 and plans to allocate another DKK 50 million in 2020(Regeringen, 2017). This means that a part of what was once a fully Danida administered program is now partly administered in IFU.

Yet, the movement of the PDP program to the auspices of IFU's organization cannot be understood in isolation. Indeed, it is part of a much bigger transfer entailed in the movement of DBF from the Danida administration to the IFU administration. DBF has a yearly budget of DKK 325 million in 2018 with an anticipated increase to DKK 400 million in 2019 and going forward (Regeringen, 2017).

DBF offers subsidized loans to infrastructure projects in developing countries. The budget for DBF is estimated to generate sustainable infrastructure projects in developing countries with a total contract value of more than DKK 600 million. The transfer is envisioned to bring about synergies attached to the competencies of IFU and the DBF instrument as well as project synergies(Elkjær, 2018). Together, IFU investments, the PDP program, and DBF provides complementary blended finance instruments targeting both public and private investors.

Thus, the new Danida Business Program strategy initiated the transfer of the PDP function to IFU. This started a trend of moving aid modalities from Danida to IFU. One year later, the decision was made to move the DBF to IFU. Within the last five years, the CSR training facility and the SMV facility have too been moved from Danida to IFU. Hence, a significant portfolio of Danida's Business Programs has been transferred to IFU within the last five years.

7.6 Conclusion: changes towards blended finance in Danish development assistance

We observe the following changes towards blended finance in Danish development assistance 1)

Danish aid has a new core purpose of catalyzing private investors towards development objectives.

This is a clear-cut adoption of the reconceptualization of aid evident within the Agenda 2030 and the corresponding Addis Ababa. This implies an altered purpose of not only aid but also development agencies; Danida and IFU's core objective is now to attract and mobilize private partners into

development assistance. 2) The increasing prevalence of thematic funds in IFU has led to a

subsequent increased involvement of private investors. The increasingly close partnership between Danish pension funds and IFU has developed in an incremental manner over a long period, however,

the size and scope of the thematic funds have recently experienced quite significant increases. 3) In order to attract private investors, IFU is changing towards looking like a private PE-fund. It does so by explicitly stating and pursuing a growth objective, by increasing its average investment sizes which implies more effective investment management, by substantially increasing its return to levels of a private PE-fund, and by hiring professional with extensive experience from the private sector. These changes have occurred over the last five years. 4) IFU's mandate has changed as a consequence of the

Government's willingness to support IFU's objective of attracting private investors. IFU explicitly stated a wish to soften its mandate in order to enable investment growth and to allow future investment in a group of countries that were experiencing high growth rates. This wish was met in incremental steps first broadening the investment mandate for IFU managed funds, then to the Danish interest concept, and the complete untying of the mandate allowing investments in all DAC-countries. 5) Finally, change towards an increased scope of blended finance modalities in IFU signifies a movement of activities from a politically controlled organization to a semi-autonomous organization.

We can sum up our findings of changes towards blended finance in Danish development assistance by concluding that Danish development assistance is changing towards the increased use of blended finance. It does so not only by increasingly involving as well as seeking to attract private investors, IFU is also increasingly organizing like a private organization. We now have an understanding of what constitutes the change in IFU and Danida towards the increased use of blended finance. Even so, we are yet to gain an understanding of the drivers of this change: we are hence interested in understanding what has caused these organizational changes to happen. We now apply our three analytical frameworks to gain an understanding of how different perspectives of sociological institutionalism can understand and explain such change.

8.0 The Blended finance concept diffuses to Danish development policy

This section will apply the analytical framework of international aid paradigms to explain the increased use of blended finance in Danish development assistance. Our ambition is to show how the international aid community shapes and enables the diffusion of ideas across national and cultural boundaries. By showing this, we highlight how dependent national development assistance policy is on global ideas and norms. Naturally, no development policy is constructed in a vacuum: national development organizations are in a constant iterative process with its global community to understand development challenges and develop viable solutions.

The section will proceed as follows: first, we will show how global governance frameworks within the international aid community provides a platform for the diffusion of its ideas. Second, we assess the emergence of the development effectiveness paradigm in the international aid community and its global governance frameworks. Third, we show how the blended finance concept emerged from the development effectiveness paradigm. Fourth, we describe how we observe the diffusion of blended finance into Danish development policy. Finally, we explain the changes towards blended finance in Danish development assistance by showing how the blended finance concept has been enabled to diffuse. In the end, we provide an understanding of the limitations to the international aid paradigm explanation, which ultimately qualifies the next section of our thesis.

8.1 Global governance frameworks provide a platform for diffusion

Besides the OECD-DAC framework that constitutes a club for developed country donors, no international framework governing the provision of development assistance existed before the adoption of the UN's MDGs in 2000. Hence, the MDGs is the first attempt to impose a global governance framework on development assistance policy (Hulme & Scott, 2010). In the wake of the MDGs, the international community agreed to discuss development policy within two additional forums; one for aid effectiveness and one for financing for development (Engberg-Pedersen et al., 2016). The first UN High Level Forum for Aid Effectiveness was held in Rome in 2002, which was followed by three high level forums, the latest one being in Busan, South Korea 2011 (OECD, 2018). The first financing for development conference was held in Monterrey, Mexico, in 2003, while the latest one took place in Addis Ababa, Ethiopia, in 2015 (Engberg-Pedersen et al., 2016). Accordingly, it is only within the last fifteen to twenty years that the international community has engaged in discussions and produced frameworks over development assistance policies (Ibid).

The primary platform through which international aid paradigms diffuse is the global governance framework. The existence of global governance frameworks within a policy area increases the ability of ideas and norms to diffuse across national and cultural boundaries. The establishment of a global governance frameworks within the international aid community enable two processes that promote

the process of diffusion. First, the negotiation process enables a network structure where organizations representing donor and recipient countries negotiate and co-construct the ideas and norms that shall provide the basis for the policies that the global governance framework represents (Djelic, 2004). Subsequently, the negotiation process also entails an *abstraction* or *theorization* of the ideas and norms: because they have to be communicated, ideas and norms become conceptualized within professional networks (Djelic, 2004; Djelic & Quack, 2012; Strang & Meyer, 1993). Second, the participant countries have all signed onto the objectives and instruments of the global governance framework. Hence, the ideas and norms that they contained are legitimized by all participating actors. Ideas and norms that have been legitimized by a wide variety of actors diffuse more easily (Strang & Meyer, 1993).

The effectiveness of the global governance framework to diffuse the norms and ideas it contains, however, depends on its strength. Unfortunately, the global governance framework of the international aid community is weak (Banks & Hulme, 2014). No legally binding governance framework exist, and most conferences and forums simply entail the production of frameworks, guidelines, and objectives that donors and recipients can choose to follow or not (Ibid). Yet, recently, global governance frameworks in the international aid community have strengthened by including a wider variety of actors into the framework (Engberg-Pedersen et al., 2016). In September 2015, The MDGs were replaced by the UN 2030 Agenda that contained a universal, comprehensive, and ambitious agreement covering both social, economic, and environmental aspects embedded in seventeen sustainable development goals and 169 sub targets (UN, 2015b). Unlike its predecessor, the MDGs, which had been criticized for being negotiated within the closed forum of OECD-DAC representatives, the negotiation process leading to the adoption of the 2030 Agenda was inclusive and invited both developed and developing states, NGOs, academia, and the private sector to participate in the negotiations (Engberg-Pedersen et al., 2016). This is a significant strengthening, especially since the increasingly important (re)emerging donors so far have not participated in the formulation of global governance frameworks in the international aid community (Mawdsley, 2012; Mawdsley et al., 2014). Wider participation in 2030 Agenda implies wider legitimization. When all

relevant actors agree to a global governance framework, it entails a universalization of its institutions. The universalization of institution promote the ability of institutions to diffuse across national boundaries and cultures (Drori et al., 2006; Meyer et al., 1997)

8.2 The development effectiveness paradigm takes shape

From the beginning, the development effectiveness paradigm was thus in a better position to diffuse across national and cultural boundaries than its predecessor, the aid effectiveness paradigm. The MDGs and the conferences and forums that followed were grounded in the ideas and norms of the aid effectiveness paradigm (Kanbur, 2003; Ohno & Niiya, 2004; Radelet, 2006). They all emphasize the importance of a close partnerships between the donor country and the recipient country. The recipient country should own its development policy, and the interaction and objectives of the development assistance should be governed by the so-called PRSPs that represented a framework for results-based management. Nevertheless, in the years after the global financial crisis in 2008-2009, the aid effectiveness paradigm fell unfashionable, and the development effectiveness paradigm started to gain traction (Mawdsley et al., 2014). The 2011 Busan High Level Forum on Aid Effectiveness represents an important tipping point in the international paradigm shift: The Busan documents introduces an emphasis on the role of the private sector and re-conceptualizes the objective of development assistance to be economic growth and productivity enhancements (Kim & Lee, 2013; Mawdsley et al., 2014; Cedergren, 2018). This idea is reproduced in the 2030 Agenda, which also elevates the role of the private sector in promoting the achievements of the SDGs. Since the 2030 Agenda is a significantly stronger global governance framework than Busan, the idea of the private sector increasingly participating in promoting public goods is more effectively diffused across national and cultural boundaries (Djelic, 2004): the private sector idea comes to enjoy the same universalized legitimacy as the 2030 Agenda itself.

The UN Addis Ababa Action Agenda is, besides being the third international conference on financing for development, part of the 2030 Agenda. This is so, since Addis Ababa specifically addresses the means by which the achievement of the SDGs in developing countries shall be financed (UN, 2015).

This entails that Addis Ababa enjoys the same universalized legitimacy as the 2030 Agenda. Addis Ababa reaffirms its support of the idea that the private sector should play an increased role in the provision of development assistance. It does so by emphasizing the role of the public sector in providing the right incentives for the private sector: *“Solutions can be found, including through strengthening public policies, regulatory frameworks and finance at all levels, unlocking the transformative potential... of the private sector.”* (UN, 2015a, §5).

8.3 From development effectiveness to blended finance

Yet, the Addis Ababa adds abstraction to the idea of the increased role of the private sector by attributing it with the concept of blended finance: *“We recognize that both public and private investment have key roles to play in infrastructure financing, including through...tools and mechanisms such as... blended finance, which combines concessional public finance with non-concessional private finance and expertise from the public and private sectors”* (UN, 2015a, §48). The identified demand of infrastructure finance in developing countries is related to an estimate made by the United Nations Conference on Trade and Development (UNCTAD) 2014 that the yearly investment gap for achieving the SDGs in developing countries is USD 2.5 trillion (UN, 2015; UNCTAD, 2014). Hence, Addis Ababa theorizes the blended finance concept by providing a definition of blended finance as well as establishing the demand, and that blended finance holds the potential to supply the financing that is in demand. In addition, the Addis Ababa also specifies how blending can solve the financing gap by lowering *“investment-specific risks and incentivize additional private sector finance”* (UN, 2015a, §48)

Finally, the Addis Ababa also utilizes the language of the development effectiveness paradigm. *“An important use of international public finance, including ODA, is to catalyze additional resource mobilization from other sources, public and private... it can be used to unlock additional finance through blended or pooled financing.”* (UN, 2015a, §54) The use of concepts like catalyzation and mobilization in relation to blending, shows that a common language has been created around the concept of blended finance. The creation of language around an abstract concept promotes the diffusion across national and cultural boundaries because language creates common reference points (Strang & Meyer, 1993). Hence, the Addis Ababa represents another tipping point in the abstractions

of the development effectiveness paradigm, which subsequently has led to the conceptualization and theorization of blended finance.

In the wake of Addis Ababa, international development organizations have committed themselves to pursue the potential of blended finance to unlock development. For example, the World Bank's International Finance Cooperation has hosted working groups for development finance organizations to establish common frameworks for the appropriate use of blended finance mechanisms (Runde et al., 2016). International organizations like the OECD and the World Economic Forum (WEC) have also published reports that state the call for increased use of blended finance, as well as providing an overview of different blended finance modalities (OECD, 2018; OECD & WEC, 2015). For example, a recent report by the OECD titled *making blended finance work for the sustainable development goals*, thoroughly describes the different financing mechanisms that can be applied towards the creation of a blended finance instrument, as well as going to great lengths in mapping the different blended finance initiatives currently existing (OECD, 2018). Finally, a think tank has been established with the sole purpose of refining the potential of blended finance to unlock development (Convergence, 2018). Besides the networking effects that all these activities entail, they also entail an increasing theorization, abstraction, and standardization of the concept. Hence, as the blended finance concept matures, it becomes increasingly easy for actors within the international aid community, such as national development agencies, to run the script of blended finance (Djelic, 2004; Djelic & Quack, 2012; Strang & Meyer, 1993; Drori et al., 2006; Meyer et al., 1997)

Thus, we find that the concept of blended finance was abstracted, theorized, and standardized within the international aid community. A common language in the form of an extended vocabulary earning to the concepts of catalyzation, additionality, crowding-in, and mobilization adds a common reference point for actors when communicating about blending. This enables easy adoption and implementation (Strang & Meyer, 1993) for national aid agencies, even for those with a peripheral position in global development networks. Blended finance is thus in a good shape to diffuse from the international aid community and into national development policy.

We argue that the strengthening of the global governance frameworks within the international aid community has been very important in the abstraction and theorization process of the blended finance concept. Accordingly, if the 2030 Agenda would not have been able to lend the Addis Ababa universal legitimacy, it is unlikely that the blended finance concept would have become abstracted and theorized to this extent. For example, we can refer to the idea of innovative financing mechanisms, which in its essence covers the same activities as blended finance. It emerged after the financial crisis at the same time as the development effectiveness paradigm gained traction. Yet, it never achieved a common definition, and neither did actors within the international aid community engage in theorizing or standardizing its use. The concept of innovative financing mechanisms ultimately disappeared again before the adoption of the 2030 Agenda and Addis Ababa. As the only significant difference we observe between the two concepts is the global governance contexts they were born into, we argue that the strengthened global governance framework of Addis Ababa functioned as the key vehicle for enabling the diffusion of the blended finance concept.

8.4 The diffusion of blended finance to Danish development assistance

The blended finance concept has diffused to Danish development policy. First, *The World 2030* identifies the investment of USD 2.5 trillion as the key objective of Danish development efforts to address. The mean by doing so will be the increased involvement of the private sector and increased efforts to ramp up IFU's activities that in their core constitutes blending (Danida, 2017). Second, MFAD concepts for Danish development modalities contains a theory of change section. These sections have since Addis Ababa been informed by the language of the development effectiveness paradigm and the blended finance concept. This is so, since the sections are structured according the concepts of additionality, catalyzation, mobilization and crowding in (MFAD, 2015a, 2016a, 2017a). In addition, all concept notes establish the purpose of the aid modality in question to be the fulfillment of the USD 2.5 trillion investment gap. Several identifies an additional objective of fulfilling the infrastructure investment gap (MFAD, 2015a, 2016a, 2017a). Third, 7 out of 9 of our interview participants, on their own initiative, referred to the USD 2,5 trillion financing gap, as the overarching problem towards which blended finance is the solution. Of the remaining two, one of them referred

to the need for additional finance and explicitly connected the SDGs with Addis Ababa and blended finance, but without the specific estimate (Kruse, 2018; Elkjær, 2018; Nørgaard, 2018; Olesen, 2018; Jespersen, 2018; Möger, 2018; Juhl Pedersen, 2018; Cedergren, 2018; Gad, 2018).

8.5 Conclusion, Analytical Framework 1: The Blended finance concept diffuses to Danish development policy

The increased use of blended finance in Danish development assistance can be explained by the abstraction, theorization, standardization, and creation of a common language around blended finance within the international aid community where it emerged as part of the development effectiveness paradigm. These attributes enable blended finance to diffuse from the international aid community and across national and cultural boundaries. National aid communities are thus enabled to easily adopt and implement blended finance into their aid modalities. Indeed, Denmark has adopted the blended finance concept both in its broad strategy for development assistance, in its assessments and communications about envisaged aid modalities, and within the argumentation of the professionals that work within Danish development assistance. The abstraction, theorization, standardization and creation of a common language was enabled by the relatively strong global governance framework of Addis Ababa, which was the first global governance framework to adopt the concept of blended finance.

8.6 Limitations to the international aid paradigm literature

The international aid paradigm explanation is not interested in explaining the specific organizational configuration in which blending is increasingly carried out in national development assistance. Hence, we cannot explain why IFU is the organization within Danish development assistance that is hosting an increased scale and scope of blended finance modalities, while Danida is increasingly outsourcing the administration and execution of aid modalities. Indeed, according to the international aid paradigm explanation, it might as well have been Danida carrying out increasing scale and scope of blended finance. In order to address this challenge, the next section will move from the transnational level to explain the national configuration of blended finance activities.

9.0 IFU, Danida, and their interaction with the development finance – and private sector fields

This section will apply the analytical framework that focuses on the institutions that inform appropriate behavior in the organizational field to explain the behavior of the organization. It will do so by tracing the coercive, normative, and mimetic pressures in IFU's and Danida's fields that condition their behavior. Our ambition with this section is to show how organizational behavior is conditioned by its external relations to, and legitimacy in the eyes of, external organization in the field. Since Danida and IFU are two distinct organizations with corresponding distinct organizational fields, we have split the analyses into two.

The first section will assess IFU's interaction with the Danish private sector and development finance fields. This will include an assessment of how the pressures we find in these two fields have enabled IFU's change towards the increased use of blended finance.

The second part of the analysis will explain Danida's decision to transfer Danida programs to IFU, which enabled IFU to manage an increased scope of blended finance modalities. As Danida is exclusively embedded within the development finance field, we go about this analysis by assessing Danida's interaction with the development finance field and develop an explanation for Danida's decision to outsource aid modalities to IFU.

Finally, we will summarize the finds of both analyses in a conclusion for analytical framework 2. This will provide an explanation for the changes towards blended finance in Danish development assistance using the analytical framework of IFU and Danida's interaction with the development finance and private sector fields.

9.1 IFU's interaction with the Danish private sector – and development finance fields

Since IFU's inception more than fifty years ago and until 1st January 2017, IFUs dual purpose has been to *“improve developing country business environments by promoting investments in these countries through partnerships with the Danish private sector”* (Lov om internationalt udviklingssamarbejde,

2012, §9; Lov om ændring af lov om internationalt udviklingssamarbejde, 2016, §9). Subsequently, IFU has one leg in the Danish private sector field and one leg in the development finance field. In the following, we will first explain how IFU's embeddedness in the Danish private sector field has conditioned its behavior. Second, we will explain how IFU's embeddedness in the development finance field has shaped its behavior.

9.1.1 IFU's interaction with the Danish private sector field

Normative pressures: IFU internalize private sector institutions through professional socialization

The institutions that inform the Danish private sector field are universal to business, contextualized by the Danish political economy and relatively broad and constant compared to the development finance field, even though shifts do occur. The types of organizations that IFU engages most with is first and foremost the private businesses that IFU engages in investment partnerships with. They also increasingly engaged with private pension funds. In addition, IFU needs to be a legitimate organization in the eyes of industry association such as the Confederation of Danish Industry (Gad, 2018). Even though the organizations pursue distinct activities, they share a core framework for appropriate behavior. These organizations conduct their activities with a core reliance on the rational and profit-maximizing behavior of organizations. A competent and legitimate organization within the Danish private sector field is thus an organization that succeeds with profit maximizing through means such as effective management systems and value-enhancing partnerships. This entails that IFU's legitimacy, as an investment fund, is assessed in its ability to deliver a profit through effective management and its ability to be a value-enhancing partner for organizations within the Danish private sector field (Kruse, 2018; Nørgaard, 2018; Juhl-Pedersen, 2018; Möger, 2018).

We observe the presence of institutionalized practices informed by the Danish private sector field in the argumentation of the IFU employees interviewed. For example, IFU employees think it is important that investment projects are commercially sustainable: *"The commercial has the best chance to survive, because, when you establish something on a commercial basis, someone has an interest in making it a success. When it's on a commercial basis, someone has an interest in following*

up on it, and they even have the hand on the stove too” (Kruse, 3). Indeed, commerciality is so essential that a concessional development project should not stand alone: “Danida Business Program is an excellent idea, but I do not really see it as something independent. I see it as something that can be linked to a commercial project” (Kruse, 2018: 3). These ideas provide the basis of Nørgård’s argument that “You cannot come and invest for IFU’s money alone, you need to have the hand on the stove yourself. So, you need a commercial idea that is sustainable and you must believe in the projects so that you are willing to invest your own money” (Nørgård, 2018: 1-2).

We argue that the private sector institution that grounds the opinions expressed by IFU employees in the above is an outcome of professional socialization between IFU and its investment partners. The main activity of IFU employees is sourcing, performing the due diligence, monitoring, and preparing the exits of investments(IFU, 2018a). The phases of an IFU investment is depicted below. Especially the phases that lead up to the investment and the exit of the investment require intensive interaction with the private sector partner to the investment. We know that the attraction of institutional models is tightly related to the socialization processes emerging from professional interaction and networking(Beckert, 2010a; DiMaggio & Powell, 1983; Scott, 2008). From professional interaction, IFU employees learn and internalize the cognitive and normative frameworks that shape their perception of what makes up a successful IFU investment and how the employees can aid in enabling organizational success(Ibid). Professional socialization condition employee routines and taken-for-granted institutionalized practices(Beckert, 2010a). Intense professional interaction between IFU and organizations from the private sector field thereby contribute to homogeneous perceptions of organizational problems and their appropriate solutions(Beckert, 2010a; DiMaggio & Powell, 1983; Scott, 2008).

The effects of professional socialization constitute normative isomorphism (Beckert, 2010a; Dacin et al., 2002; DiMaggio & Powell, 1983; Scott, 2008). In the case of normative isomorphism, organizational change is the outcome of the *attraction* that a set of institutions in the field holds for the organization, in this case IFU. Hence, we argue that it is natural for IFU to involve private investors

in its activities, and that IFU is convinced that organizing like a private organization yields superior results. For example, IFU employees argue that IFU almost might as well have been a private organization. Kruse reflects on the former Investment fund for Eastern European Countries: “We could have cut that part of IØ out and made it private.” (Kruse, 2018: 4)

Figure 10 The phases of an IFU Investment (IFU, 2018a)

9.1.2 IFU’s interaction with the development finance field

Due to its dual purpose, IFU has always been tasked with striking a balance between the institutions that condition appropriate behavior in the development finance field and the Danish private sector field (Hansen, 2011). This section assesses IFU’s interaction with the development finance field.

IFU mimics private sector institutions as a consequence of illegitimacy in the development finance field

Striking a balance between the institutions that condition appropriate behavior in the development finance field and the Danish private sector field has often times been troublesome (Hansen, 2011). The aid effectiveness paradigm that dominated the development finance field until after the financial crisis stipulated that donors’ development assistance should adapt to the development strategies of the recipient country, and that donors had to use the recipient countries’ institutions and systems. Inherent in this policy recommendation lies an abandonment of tied aid and an emphasis on partnering and listening to the needs of the recipient country (Andersen & Therkildsen, 2007; Kanbur, 2003; Sumner & Mallett, 2013b).

IFU’s legitimacy was challenged within the aid effectiveness paradigm: first, as an investment fund, IFU primarily interacts with its investment partner when preparing and conducting its investment. IFU does not directly engage in a partnership with a recipient government. Second, and more fundamentally, IFU’s dual purpose entailed that IFU represented a tied aid modality. IFU’s dual purpose was decided by law, and thus could only be altered by the Danish state and not by IFU itself.

The legitimacy challenges that IFU incurred while the aid effectiveness paradigm dominated the development finance field placed IFU at the periphery of the development finance field (Kruse, 2018). IFU was thus not perceived as an organization capable of solving the development needs of poor and fragile states. We can show IFU's place in the periphery of the development finance field during those years by referring to the fact that IFU hardly received any ODA funding during those years, as Kruse argues: *"I think that the political realities in Denmark were such that if you took another bite of the development aid budget and put it in IFU, then it would give too much trouble with the NGOs and some political parties."* (Kruse, 10).

Every organization strives to be a legitimate actor within its organizational field and will do so by conforming to the institutions that define appropriate behavior within its field (Beckert, 2010a; Dacin et al., 2002; DiMaggio & Powell, 1983; Scott, 2016). Yet, IFU was prevented from conforming to the aid effectiveness paradigm since the *Law for Danish Development Cooperation* prescribed IFU a purpose that went directly against appropriate behavior in the field. IFU's illegitimacy in the development finance field thus put IFU in a situation of great uncertainty. The only action IFU could take to ensure long term organizational survival was hence to enhance its legitimacy in the Danish private sector field. Ensuring an increased level of legitimacy in the Danish private sector field would ensure a political will to keep the IFU organizational alive and well.

We therefore argue that the normative pressures that have conditioned IFU to conform its institutional practices to those of the Danish private sector field have been complemented by mimetic pressures. The driving force of mimetic isomorphism is the legitimation that an institutional practice finds within an organizational field (Beckert, 2010a; Dacin et al., 2002; DiMaggio & Powell, 1983; Scott, 2008). The organization does not adopt the institution because it finds it superior, instead, it adopts it exclusively because it will yield legitimacy in the field. In the same manner, we argue that the legitimacy problem and the subsequent uncertainty IFU was placed in during the aid effectiveness paradigm have pushed IFU to adopt an extra layer of private sector institutions; not because IFU was convinced of the institutional practices' superiority in fulfilling IFU's purpose, but simply because it

needed to ensure enhanced legitimacy in the Danish private sector field. This is because it could do nothing about its lack of legitimacy in the development finance field.

The Danish state condition IFU's behavior through coercive pressures

Hence, we understand IFU as an organization that was informed by private sector institutions long before the emergence of the blended finance concept. Nevertheless, even though IFU's internal framework for appropriate behavior is to a great extent informed by the Danish private sector field, IFU has to conform to its owner, the Danish state. IFU was for example mandated by the Danish state only to invest in the lower-income range of developing countries, which are generally perceived to be less attractive investment destinations for the Danish private sector field (Juhl-Pedersen, 2018; Gad, 2018; Möger 2018). IFU's mandate is an example of coercive isomorphism. Coercion conditions organizational behavior through formal and informal pressures exerted on an organization by another organization upon which they are dependent (Beckert, 2010a; Dacin et al., 2002; DiMaggio & Powell, 1983; Scott, 2008) The Danish state owns IFU, and IFU is hence dependent and thus has to conform to direct pressures that the Danish state exerts on IFU. And hence, during the aid effectiveness paradigm, coercive pressures of the Danish state constrained IFU's legitimacy in the Danish private sector field.

Thus, IFU is an organization informed by private sector institutions but conditioned by the development policy of the Danish state that is operationalized and exercised by its development agency, Danida. Yet, development policy paradigms change, and subsequently the coercive pressures conditioning IFU behavior changes as well.

In 2015, the development effectiveness paradigm had gained its dominance in the development finance field. The development effectiveness paradigm offered a set of institutions that define legitimate behavior in the development finance field. The perceived need of private investment to close the financing gap and the subsequent purpose of aid to be a catalyzer of private investment functions as an institutionalized logic in the development finance field. The need for private investment and the subsequent need for catalyzing aid becomes a shared cognitive and normative

framework within the development finance field. Concepts like catalyzation, additionality, mobilization, and blended finance function as attributes of the shared cognitive and normative framework; they contribute to the development of a distinct language that characterizes the institutionalization of the development effectiveness paradigm.

As the development effectiveness paradigm gained traction in the development finance field, and subsequently in the Danish approach to development cooperation, the coercive pressures of the Danish state on IFU were removed. The Danish state and subsequently Danida quickly adopted the institutions of the development effectiveness paradigm. This is evident in the language and content of the broad strategy of development cooperation and humanitarian assistance, as it is embedded in World 2030 and the Taksøe-report. For example, in the Taksøe-report: “...*the agreements on... development financing in Addis Ababa set the scene for an unprecedented and close cooperation between public and private partners in mobilizing financing*” (Taksøe-Jensen, 2016, VI)”, and in World 2030 states that development aid paradigm shift “... *represents the end of perceiving development as a task, which first and foremost requires development aid*” (Danida, 2017, 2)

IFU's unique institutional configuration enables an effective internalization of the development effectiveness paradigm

IFU already understood the core ideas behind the concepts of catalyzation, additionality, and mobilization; that private investment can and must increasingly be mobilized towards development efforts. Therefore, IFU was quick to internalize the attributes of the development effectiveness paradigm when it first gained traction, since the core institutional framework was already in place in IFU. As Kruse argues about the trend to increasingly mobilize private investment “*And this has then become the new black. And that we have been fast to pick up*” (Kruse, 2018: 8). The entrance and increasing dominance of the development effectiveness paradigm also enabled IFU to exercise some of those institutions of the private sector that had been constrained by the framework of appropriate behavior of the aid effectiveness paradigm that had subsequently embedded itself as coercive pressures of the Danish state.

Summarizing IFU's interaction with the Danish private sector and development finance fields

We explain IFU's increased use of blended finance by its interaction with the Danish private sector and development finance fields. IFU has internalized private sector institutions as an outcome of two processes: an extensive professional socialization with the Danish private sector enabled normative isomorphism, while the illegitimacy IFU was subject to in the development finance field conditioned IFU to respond to mimetic pressures of internalizing an extra layer of private sector institutions, because the private sector was the only place IFU could gain legitimacy. IFU is hence informed by a framework of appropriate behavior largely consisting of private sector institutions. Only the Danish state has pushed IFU in other directions by exercising coercive isomorphism. When the development effectiveness paradigm gained traction, however, the Danish state altered its coercive pressure to enable IFU to pursue its private sector informed behavior. IFU was therefore in a unique position to adopt and internalize the development effectiveness paradigm.

Yet, in order to explain Danish development assistance increasing use of blended finance, we must also understand the motives of the Danish state's development agency, Danida, in enabling IFU to increase the scale and scope of its blended finance activities. This is so, since, as we have shown in this section, the Danish state exercises coercive pressures on IFU. One of the main ways in which the Danida has promoted the blended finance activities of IFU is by transferring its aid modalities to the IFU administration. The outcome is that IFU is administering an increased scope of finance modalities. Hence, the purpose of the next section is to explain Danida's decision to outsource aid modalities to IFU.

9.4 Danida's interaction with the development finance field

9.4.1 The B2B program put Danida in a severe legitimacy crisis to which the ideal solution was unknown
Danida launched the Danida Business Platform in 2015. It replaced the old framework for Danida's business oriented programs. The new platform entailed the outsourcing of the predecessor of DBP, the PDP-function, to IFU. Also during 2015, the Danida SMV facility was transferred to IFU. In 2017, DBF was transferred to IFU. The Business Platform therefore represents a tipping point from which

the process of outsourcing aid modalities from Danida to IFU intensified. It is hence worth investigating its emergence.

The decision to get the new Danida Business Platform was a direct consequence of the B2B evaluation and the subsequent suspension of DBP and the Business Project Development facilities, which placed Danida in a legitimacy crisis: National newspapers generated headlines such as *“Danida-program: 100.000 DKK for creating one sustainable job”* (Bendtsen & Broberg, 2014), DI argued that Danida lacked the core competencies to the extent that external consultants instead should carry out the administration and execution of business related programs, and politicians from both sides of the political spectrum raised demands of greater control with Danida’s activities (Frandsen, 2014). Thus, Danida’s organizational field perceived it to lack the appropriate competencies to carry out business related programs. The Minister of Trade and Development, Mogens Jensen, explicitly recognized Danida’s lack of competencies by arguing that Danida *“has been too large”* in connection with his announcement that the Danida Business Platform was going to receive a complete overhaul (Finans, 2014). Thus, the organizational field perceived Danida as an illegitimate agent within the development finance field. Danida needed to restore its legitimacy in order to ensure long-term organizational survival.

Three factors complicate Danida’s task to restore legitimacy. For one, Denmark gets a new Government in the summer of 2015. The Government decides to cut down the development aid budget from 0.85 percent of GNI to 0.7 percent of GNI; a cut-down of 21 percent within one year (Jespersen, 2018: 15). This is a substantial cut-down that in itself would leave any organization in great uncertainty as to how to maintain its purpose and activities. Second, it is difficult to satisfy all stakeholders especially when dealing with business oriented aid modalities, because the inclusion of business invites Danish private sector stakeholders into Danida’s organizational field: NGOs and industry associations typically have distinct views as to the optimal design and structure of a business oriented aid modality (Gad, 2018). The third and interdependent point is political will to mobilize SMVs in development finance activities. Yet, due to their lack of capacity, they do not enable

development effects to the same extent as large companies. Thus, most development instruments involving the mobilization of Danish SMVs in developing countries fail to live up to anticipated development effects.

Thus, if Danida is to maintain its development effort, it must ramp up its effectiveness substantially. At the same time, there is a political demand of including SMVs into business programs, which are generally perceived to be ineffective development partners; following the B2B evaluation Danida employees identify the SMV as the cause for the lack of development effects in the B2B and DBP programs. Finally, this is coupled with an impossible task of achieving legitimacy in the eyes of all types of stakeholders. These are the conditions under which Danida must construct a new Business Platform. Danida is placed in a situation of great uncertainty: It must create a Business Platform that will restore its legitimacy, but it is incapable of rationalizing a solution that will do this. We argue that Danida combines two legitimized scripts for appropriate construction of aid modalities in its design of the business platform: the first script comes from the field and the set of institutions that compose the development effectiveness paradigm. The institutions of the development effectiveness paradigm are then combined with the institutionalized practice of Danida to outsource its programs when responding to cut downs and requirements of efficiency enhancements.

9.4.2 Danida internalizes the development effectiveness paradigm

In 2015, the development effectiveness paradigm had gained its dominance in the development finance field. The development effectiveness paradigm offered a set of institutions that define legitimate behavior in the development finance field. We have previously shown how the development effectiveness paradigm came to dominate the ideational basis for the broad Danish development policy as it is embedded in World 2030 and the Taksøe report. The institutionalized logics of the development effectiveness paradigm is also traceable in the new Danida Business Platform. The MFAD strategy document for the Danida Business Platform explicitly states that Danida seeks to *“combine public and private resources and decrease risk associated with addressing concrete development needs with the purpose of catalyzing increased investments and engaging the private*

and financial sector”(MFAD, 2015, 4). Furthermore, the language of the institutionalized logic of the development effectiveness paradigm is used in that the document repeatedly refer to the concepts of additionality, mobilization, and catalyzation as a key characteristic of the program and its set of aid modalities.

IFU and Danida employees explain the transfer of business oriented programs from Danida to IFU by referring to the higher level of private sector competencies that sits in IFU (Elkjær, 2018; Jespersen, 2018; Olesen, 2018). The increased demand for private sector competencies, defined as competencies an employee has gained either from working in a private company or from taking a business oriented education, is a natural consequence of the objective of mobilizing the private sector. This is so, since the core task of the development organization becomes that of attracting the private sector. In order to do so, they need to understand private sector needs and objectives, as well as having to speak their language (Cedergren, 2018). In other words, they need to have competencies enabling them to run the script of appropriate behavior within the private sector field. Hence, the perceived usefulness of private sector competencies has become institutionalized in the development finance field.

9.4.3 Danida has institutionalized its outsourcing practice

Yet, this does not explain why Danida instead did not chose to hire a set of new employees with private sector competencies to administer its business oriented programs. They did so because Danida actually usually responds to cut-down or competency requirements by outsourcing its programs. Indeed, Danida has increasingly practiced the outsourcing of Danida programs during the last twenty years. Twenty years ago, Danida administered the vast majority of programs internally. Today, Danida is increasingly outsourcing the administration and execution of projects (Elkjær, 2018). The practice of outsourcing has become a prevalent response to challenges related to cut backs and the subsequent need of efficiency increases as well as to a lack of internal competencies in carrying out programs. The practice of outsourcing has even reinforced the argument for outsourcing. This is so, since the greater the extent of outsourcing in an organization, the lower the intensity and

extensivity of available resources will be. As was revealed during our interviews it is not considered as MFAD's competence to specialize too much. Hence, Danida combines two scripts of appropriate behavior to legitimize the transfer of programs from Danida to IFU: The institutions constituting a cognitive and normative framework for appropriate behavior contained in the development effectiveness paradigm, and the institutionalized practice of outsourcing within Danida.

9.4.4 Danida's internalizes the development effectiveness paradigm as an outcome of mimetic isomorphism

We argue that Danida's reliance on the script for appropriate behavior contained in the development effectiveness paradigm constitutes a case of mimetic isomorphism (Beckert, 2010a; DiMaggio & Powell, 1983). Indeed, Danida imitates the institutions of the development effectiveness paradigm as a reaction to the uncertainty it faces. Mimesis is prone to occur in situations where an organization is unable to identify an optimal institutional solution. We argue that Danida's imitation of the institutional templates of the development effectiveness paradigm functions as compensation for the lack of rationality. In addition, mimesis functions as a protective shield for Danida in the case of failure (Ibid.). As Danida adopts the dominant institutionalized template for appropriate behavior within the development finance field, it becomes hard for stakeholders in the Danish development finance field to criticize it for incompetence; indeed, Danida is simply doing what any other development agency would do.

Danida adds an additional layer to its protective shield by outsourcing the Danida programs to IFU. Outsourcing does not only entail the loss of control, it also entails the loss of responsibility. Beckert (2010) argues that a special case of mimetic isomorphism can be observed in situations where organizations strategically seek to downplay their role in the construction of an institutional regulation. These are prevalent in cases where the organization not only needs a shield against institutional failure, but also needs to guard itself against de-legitimization of its policy due to the suspicion that the institutional design serves certain specific stakeholder interests (Beckert, 2010a). Danida cannot afford too much criticism from NGOs and certain political parties that they are serving the interests of the Danish private sector. This suspicion is especially likely in the case of the SMV

facility, which in its core design includes actors who are known to be less effective development partners, but nevertheless constitute an important voter group. By outsourcing these programs to IFU, Danida removes the possibility to be de-legitimized on the background of such suspicion. Furthermore, IFU is unlikely to be subject to the same kind of critique, as their legal purpose is to serve private sector interests.

Therefore, we argue that the transfer of Danida programs in the period from 2015 to 2017 can be explained by isomorphic mimesis. Danida needed to restore its legitimacy, and since it was subject to a high level of uncertainty no rational cause of action to restore legitimacy could be identified. Hence, Danida imitated the script for appropriate behavior that is contained in the development effectiveness paradigm. This shields Danida from critique in case these institutions should prove to fail to deliver effective development results. Further, the reliance on the development effectiveness paradigm coupled with the outsourcing to IFU adds an additional shield should the aid modalities be suspected by stakeholders to be biased towards serving private sector interests.

We could also have argued that the transfer of programs to IFU was an outcome of normative isomorphic pressures. In this case, the argument would be that the transfer is an outcome of Danida's perceived attraction of the normative and cognitive frameworks of the development effectiveness paradigm. Yet, we are unconvinced that Danida has chosen to transfer the programs to IFU as a direct consequence of the conviction that doing so represents a superior institutional solution. The speed with which Danida changes its mind on institutions that informs the core structure of its aid modalities does not leave enough time for the organization to undertake the thorough socialization processes emerging from professional training and networks in the field that enables such conviction of superior solutions(Beckert, 2010a). Indeed, Danida appears to rely on the ideas of the aid effectiveness paradigm until the evaluation of the B2B program which delegitimized the application of the institutional rules of that paradigm. In less than a year, its business arm is informed and structured along a whole different set of institutions. It is thus unlikely that Danida has undergone the socialization process enabling conviction in such a short period of time.

9.4.5 Danida's institutionalized outsourcing practice is a case of normative isomorphism

However, we do observe some patterns that would suggest the presence of normative isomorphic pressures conditioning the transfer of Danida programs to IFU. The increasingly prevalent response of outsourcing programs constituted a professionalized logic of Danida. As argued above, its repetition locks in the outsourcing practice as it become increasingly expensive to divert away from. The outsourcing practice appears a bureaucratically superior solution in that it removes problems from Danida. These are both tangible problems such as cost as well as more intangible ones such as the risk of criticism. As the outsourcing practice becomes increasingly prevalent it integrates itself into the logic of the organization through professional socialization between Danida employees. Hence, the purpose of Danida changes from being program administrator and executor to becoming that of a program design and strategy constructor. Interview data suggests that this professional socialization process has been going on for about twenty years, and hence we can argue that the outsourcing practice constituted an ingrained professional logic of Danida: it is perceived to deliver superior results, maybe not in terms of development effects, but in terms of ensuring Danida legitimacy and subsequent organizational survival.

9.4.6 Summary of Danidas's interaction with the development finance field

The transfer of Danida programs to IFU in the period between 2015 and 2017 can be explained by a combination of mimetic and normative isomorphism. The emergence of mimetic behavior was conditioned by Danida's legitimacy crisis coupled with a situation of great uncertainty. Hence, Danida imitated the script for appropriate behavior that is contained in the development effectiveness paradigm. This shields Danida from critique in case these institutions should prove to fail to deliver effective development results. Further, the reliance on the development effectiveness paradigm coupled with the outsourcing to IFU adds an additional shield should the aid modalities be suspected to be biased towards serving private sector interests. Normative isomorphism also conditioned Danida's decision to transfer programs to IFU. Over the last twenty years, Danida has developed an institutionalized practice of outsourcing programs in response to budget cuts and demands of greater

effectiveness. The institutionalized practice constituted an ingrained professional logic of Danida: it is perceived to deliver superior results, maybe not in terms of development effects, but in terms of ensuring Danida legitimacy and subsequent organizational survival. Hence, we can explain Danida's transfer of aid modalities to IFU that enabled an increasing variety of blended finance modalities in IFU by reference of a combination of conditions in the development finance field that conditioned normative and mimetic organizational responses of Danida's.

9.5 Conclusion, Analytical framework 2: IFU, Danida, and their interaction with the development finance – and private sector fields

We can explain the changes towards blended finance as an outcome of the combination of the internalized institutional practices of IFU and Danida before the emergence of the development effectiveness paradigm with the framework for appropriate behavior of the development effectiveness paradigm when it emerged. Thus, IFU has changed towards the increased use of blended finance because its embeddedness within the Danish private sector field enabled it to easily internalize the development effectiveness paradigm and the blended finance concept when it emerged. Correspondingly, Danida has enabled the increased use of blended finance in IFU by outsourcing programs. This can be explained by a combination of Danida's institutionalized outsourcing practice combined with the emergence of the development effectiveness paradigm.

9.6 Limitations to the field pressure explanation

The field pressure perspective aids us in understanding how organization's embeddedness and interaction with their field condition and explain organizational behavior. Yet, the field pressure perspective cannot explain why blended finance modalities take the form they do; it cannot explain why Danish blended finance, for example, has taken the form of thematic funds with preferential return models. Hence, it appears as if we must move from the meso- to the micro level in order to understand why Danish blended finance modalities are constructed like they are.

10.0 Agents of change in Danish development finance

Danish development assistance increasingly uses blended finance. This section will apply the agents of change analytical framework as it has been drawn from the literature on institutional entrepreneurs to explain this change. We will do so by assessing the interactions and power relations of these organization to see, whether any of the organizations, or actors within these organizations, have been placed in situations that enabled them to drive and promote the change in Danish development assistance towards the increased use of blended finance. This section will first engage with the ability of organizations to be agents of change, which increases when they are able to form coalitions in the pursuance of a commonly understood objective. This will be followed by a perspective looking closer at the importance of individuals and their backgrounds, and how changing compositions of individuals are important in determining organizational outcomes.

10.1 Collaborations between IFU and the Pension Funds

The partnership between IFU and the pension funds through the increasing scope and scale of thematic funds constitutes one of the major changes towards the increased use of blended finance. Hence, this section will explain how the interaction between these two organizations enabled the increased use of blended finance in Danish development assistance. In this section we will first account for the conditions enabling this inter organizational collaboration by providing an insight into the interests and relative position of the organizations (Lawrence et al., 2002). After that we will analyze their inter-organizational relations to understand the role of these in the set-up of Danish blended finance

10.1.1 The circumstances under which IFU became a partner of pension funds

During the aid effectiveness paradigm, IFU was placed at the periphery of Danish development finance. Its dual purpose and commercial basis of operating brought with it issues of legitimacy. This was part of the reason that IFU was not to any significant extent on the development assistance and humanitarian aid budget. As a self-governing organization embedded in private sector institutions, it was difficult to achieve organizational growth when its legitimacy as a development agency was questionable. At this time legitimacy and growth did not seem possible to achieve through its owner,

the state. IFU thus had to go elsewhere to grow and strengthen its legitimacy and fit with the Danish political and economic landscape. As Morten Elkjær argues, the fact that IFU has not gotten any funding from the state might have incentivized it to seek it elsewhere (Elkjær, 2018:11).

Certain circumstances enabled IFU to reach out to the pension funds to propose a partnership that would also be accepted within the development finance field. Previously, in 2006, Danida had cooperated with a group of Danish pension funds investing in Vietnam. This had put the pension funds and their willingness to collaborate with development agencies on the radar. The COP15 climate summit in Copenhagen in 2009 added to the idea of partnerships, in which the public sector attempts to crowd-in capital from the private sector. The result of the summit was an emphasis on the need for states to mobilize private investments in climate both in developed and developing countries. As Denmark was the hosting country a political desire was present to improve the credibility of such negotiations by moving ahead and taking action. *“One of the arguments for making DCIF was, among other things, that it should be part of the pledge that was made at the climate summit at the time.”* (Nørgård, 2018:4). This provided legitimacy and purpose for IFU to partner up with the pension funds. Additionally, the partnership that IFU entered into with a group of pension funds in the IIP provided a platform for testing the viability of a formal collaboration between these parties. *“And then it led to the next step making this IFU Investment Partners, which is not a fund but a facility where the pension funds made some money available... And it was like the next step. Then we're a little more together. And then came the idea of making a climate fund and fund-structure with IFU as fund manager”* (Kruse, 2018:7).

Yet, the partnership would not have been possible if the pension funds did not have an interest in participating. Within the last decade the attractiveness of investing in developing countries have increased significantly relative to the investment climate of developed countries (Kekic, 2009). Pension funds traditionally invest large sums in government bonds as they are particularly risk averse investors. The low interest rates, especially since 2008, have thus presented them with the challenge of increasing their investments in alternative assets (Möger, 2018: 6). As a result, pension funds have

been on the look-out to increase their presence in high growth markets in developing regions as part of a broader strategy to increase the share of their portfolio invested in alternatives. Along with the changing macroeconomic conditions, a greater focus on contributing to socio-economic development through investments have occurred as the pension funds are more aware of their ability to “do good” through their investments (Möger, 2018: 3). IFU, being a development actor, is therefore a good partner through which the pension funds can engage in so-called *impact investments*, which satisfies the interests of the pensioners and the wider public.

We thus see several factors that have interacted to produce fruitful conditions for the collaboration between IFU and some of the Danish pension funds. The fact that IFU did not receive continuous funding from the Danish state and its peripheral position in Danish development cooperation led it to look elsewhere for opportunities to grow and establish an institutional fit to provide legitimacy. The IIP in which IFU and the pension funds established their contact, and the perceived need for the Danish state to back up the COP15 climate summit interacted with the desire for pension funds to increase their level of *alternative investments* and the desire to *do good* through investments. These were the conditions that led to the creation of DCIF which represented the first thematic fund funding by a mix of public and institutional capital.

10.1.2 The relation between IFU and the pension funds

However, IFU and the pension funds are not equal partners. The process of their intensifying collaboration has been based on a skewed power relation to the benefit of the pension funds. The pension funds have the money and the capability to provide IFU with legitimacy. The pension funds lend legitimacy to IFU through their investments in their common funds as this makes IFU seem as a successful organization that is able to mobilize large sums of capital. It also shows that IFU is able to connect its business of providing development and positive returns with the promotion of sectors that are of strategic importance in Danish trade policy such as green energy and agriculture (Danida, 2017).

At the same time the pension funds are not as dependent upon IFU as IFU is on them. The pension funds have the opportunity to pursue this type of investment elsewhere, in other funds and with other partners. They do not feel an obligation to collaborate with IFU and will not do so if the individual projects and funds does not suit them. Torben Möger emphasized a range of other projects that fits PensionDanmark's purpose for alternative investments which is to provide attractive returns and *do good* at the same time, which does not only take place in developing countries. Additionally, he argued *"That is why IFU does not have a monopoly on our exposure to developing countries"* (Möger, 2018: 6). This resource asymmetry can help explain which organizations that are in the best position to shape new practices within the confines of an institutional setting (Greenwood & Suddaby, 2006), in this case the institutional setting of blended finance. In addition, it can explain why IFU becomes open for new ideas (Ibid) as a consequence of their relationship with these pension funds.

Yet another argument that clearly shows that the pension funds have a strong bargaining position versus IFU is their relative exposure to the project that IFU-managed funds constitutes. For IFU this model has become the centerpiece of the organization and is a large part of the reason that IFU has been able to grow their investment activities as fast as they have. The pension funds, however, have only invested a small part of their overall capital in these funds. PensionDanmark currently holds assets totaling DKK 230 billion (PensionDanmark, 2018), with an exposure to the IFU-managed funds of DKK 200 million for each of DAF and DCIF. PKA has invested the same amount in these funds and holds assets worth DKK 275 billion (PKA, 2018). Each of them is expected to invest more into the coming SDG-fund, but this will still be a small exposure in their very large balance sheets. The pension funds are the most powerful actor in this relationship as they are much more important to IFU as an organization than they are to the pension funds.

This result is substantial influence when it comes to interpretation of issues and how to resolve them such as what constitutes an attractive new fund, how they should and should not be set-up. It is also very important to note that it is a particular group of pension funds that are involved in this. It is the three pension funds of PKA, PensionDanmark and PBU that have invested in DCIF and DAF. PKA and

PBU are the investors in IIP. From our interviews with IFU employees we understand that PKA and PensionDanmark are generally perceived as the central pension funds in this set-up, as they also have invested the largest amount of capital. PBU have been involved with these funds from the start but is generally perceived to be more peripheral in this set-up as they are not currently in line to join the SDG-fund. IFU and the pension funds know each other, and have become more familiarized, as they have increased their collaboration.

This fits with the model of the funds which are constructed in a way that is aligned with how such pension funds usually invest. Pension funds invest in other funds that manages and deploys the pension funds' capital against a fee. *"The way we work in PBU is with external fund managers... under all circumstances we would partner up with external fund managers"* (Juhl Pedersen, 2018: 4). We therefore argue that the pension funds have been the actors determining the model for blended finance that have prevailed in Denmark. The pension funds have had the strongest bargaining position against IFU. This also suggests that IFU and Danida have been the organizations putting in an effort to attract the pension funds into the partnership. This has granted the pension funds substantial agenda setting power in how to approach such funds. This is in line with the argument by Hoffman (1999) that when there is change in the field of relevant actors (the entrance of pension funds) concurrently with a change of institutions (the aid effectiveness paradigm), a strong group of organizations can succeed in defining issues.

A plethora of different ways of structuring blended finance instruments exist. The choice of a closed-end fund model that makes equity investments that it plans to exit after an investment period of approximately five years mimics the structure of a private equity fund. While blended finance instruments can be designed in many ways, the structure that IFU is now specializing in fits the needs of the pension funds. An additional factor that shows how these funds have been aligned to fit the needs of these pension funds is the preferential return model. The pension funds are more risk averse than the state actors, which is why they have been promised the first six per cent of the return. The preferential return model ensures that IFU carries the part of the investment with high risk levels,

whereas the pension funds carries less risk at the cost of lower potential returns if a given project happens to provide a return above twelve per cent.

The coalition building between IFU and the pension funds have become increasingly closer. The size and scope of the IFU managed funds have grown incrementally. Both actors stepwise increase their resource commitments in the funds, which signals that trust between the parts incrementally intensifies as experience grows over time. *“We built a relation of trust, and the pensions funds could see that this model worked well. And then we suggested if we should try to look into other areas, such as agriculture and food, and then we embarked on that. Let’s call these two test cases. And then we ran the idea of the SDG-fund”* (Kruse, 2018: 8). Observing this type of high involvement and embeddedness between organizations suggests they will be able to act as institutional entrepreneurs to construct and extent new ways of doing things (Lawrence et al., 2002).

The structure of the forthcoming SDG fund will be very similar to that of the DCIF and DAF, except its scope is significantly broadened, and its scale is substantially increased. These exact factors are the ones that pension funds have requested if they were to participate in an additional fund (MFAD, 2016a). The preferential return model is still the same. This suggests that the pension funds still have significant power with regards to issue interpretation and continues to actively leverage it. They have argued that the new funds need more scale in its investments *“to better exploit market opportunities and reduce transaction costs”* and that it must have a broader investment mandate *“to ensure larger investment flexibility... and better risk diversification”* (Ibid:8). The new fund is now set to be structured along these criteria.

This shows that the power relation between the pension funds and IFU and Danida has not changed, as the partnership has developed. Indeed, one might argue that it has been skewed even more towards the interests of the pension funds, as IFU’s ability to invest is increasingly dependent on pension fund capital. IFU will tie DKK 2.1 billion of its total capital in the SDG-fund out of a total equity of DKK 3 billion. Meanwhile private investors, including the pension funds, are expected to contribute

about DKK 3 billion, constituting a much less significant amount of the pension funds' investment portfolios. Therefore, this resource asymmetry is set to still define their future relations as IFU will remain much more dependent on the pension funds and the SDG-fund as a project, than the pension funds will be. The pension funds will thus remain a powerful actor in Danish blended finance with substantial agenda setting power in relation to the activities of IFU.

10.1.3 How relative bargaining power can explain the particular model of the IFU-managed thematic funds

Now we have established that IFU was looking for legitimacy and an ability to grow its portfolio outside the confines of the state. Due to a several experiences and conditions such as good experiences with the IIP, COP15 increasing the political will for a climate fund, IFU and a group of pension funds was able engage in a partnership. This partnership has induced IFU with growth and professional legitimacy as IFU becomes the manager of much larger sums of money. Even though the pension funds only invest small stakes of their overall portfolio, they still engage their top management in these funds, as they are important for symbolic and political reasons which also induce IFU with legitimacy. That is why IFU is willing to engage in such an uneven partnership.

Using the analytical framework rooted of agents of change, it becomes clear, due to the relative size of IFU and the pension funds, that the pension funds have been and still are in a strong bargaining positions against IFU. Engaging in this partnership have been much more important for IFU, than it has been for these pension funds. This relative bargaining position, arising from substantial resource asymmetries, can help explain why these collaborations have been constructed in the image of PE-funds in which IFU acts as the manager – because this is a model that the pension funds have demanded (Greenwood & Suddaby, 2006). It is also a good explanation for the preferential return model that is an inherent part of these funds, as it is a requirement for the pension funds to participate. The high involvement between IFU and the pensions funds fits with the theory by Lawrence et al (2002) that organizations that are well aligned and able to work closely together are in a better position to exert agency and shape practices. Additionally, Hofmann (1999) argues that when a new group of organizations enter the field, such as the entrance of pension funds, it creates a

climate in which organizations are more likely to exert agency. These are the reasons why Danish blended finance has developed towards this unique model that the IFU-managed funds constitute.

10.2 The changing composition of IFU employees

This section will look at individuals and their backgrounds, and how changing compositions of employees can impact organizational change and its direction. From the literature on institutional entrepreneurship, we know that actors that come into an organization from another organizational field are more likely to be innovative and bring about change, than individuals that have been centrally placed for a long time (Battilana et al., 2009; Zilber, 2002; Lawrence & Suddaby, 2006). For that reason, we now turn to the composition of IFU employees, to see if it fits with our observations of the change that have occurred in the organizational structure and its practices. We have previously accounted for how the IFU management have changed in recent years with a new CEO and a distinct private sector profile of the new vice-presidents that have been hired. To answer our research question, we need to explain how the organization of IFU has changed as this is the locus of blended finance in Denmark. For that reason, this section will only engage with IFU employees and how they have been in a position to change IFU.

10.2.1 The import of private sector objectives

“One can say that IFU's requirements for IFU employee competencies are slightly broader than in a normal capital fund. You must also have diplomatic competencies if you are to operate in the countries they have as targets. They have to, and IFU have succeeded in this regard, be complemented with traditional commercial and technical skills.” (Möger, 2018: 4)

We can see that a new type of employees, those with private sector experience, have become employed in IFU. IFU have previously been managed by predominately by diplomats. For example, IFU's former CEO, Finn Jønck, was a long time diplomat with extensive experience in Danida and the World Bank (Globalnyt, 2013). We can also see that these private sector competencies, referred to by Torben Möger as *“traditional commercial and technical skills”*, are highly valued by the pension funds. It seems likely, although we cannot know this, that the new CEO, Tommy Thomsen, favors private

sector skillsets higher than his predecessor and that this is part of the reason why the three new employees, that was hired within the last three years, at the Vice President (VP) level all come from distinguished careers within the shipping industry. The VP-level in IFU is an important part of the management as it comprise heads of the different divisions such as Climate, Agribusiness, and North Asia and works at the management layer directly below the CEO. As it has become part of the political agenda that a stronger effort should be put into mobilizing the private sector for development purposes, while accepting that profitability is a precondition, private sector competencies suddenly seems more appropriate in this context. A.P Møller – Mærsk is a Danish company and one of the worlds largest shipping companies. As part of its business it is involved numerous countries, including developing countries, and has constructed ports and other infrastructure around the world. The Maersk profile therefore fits well with the activities of IFU as it brings experience with both large infrastructure projects and how to carry these out in various countries including developing ones. In addition to this it provides a private sector skillset within the realm of investment and finance that is not typically associated with diplomats.

The current circumstances in which much more attention is given to the private sector, and the need for their mobilization in development policies, have resulted in beneficial circumstances for these professionals to shape Danish development finance. As Lawrence & Suddaby (2006) argues, the entrance of actors from other fields may become institutional entrepreneurs in the sense that they bring norms and practices with them from their previous roles and employ it in their new context. In our context this process, referred to as mimicry (Ibid), entails how Thomsen has brought with him a private sector mindset and associated objectives which shines through IFUs current strategy and activities in which growth and higher returns now sits at the center.

The high growth rates measured by investment volume and larger profits in IFU coincides with the entrance of the new management. It therefore fits the picture that Tommy Thomsen as the new IFU CEO, schooled in this private sector, have been setting this new strategic direction where, in the words of Max Kruse (Kruse, 2018:11), they have a greater focus on producing higher returns. The fact

that all the new employees at the VP level also fits this profile furthermore suggests that these private sector competencies have become much more valued within IFU itself, in line with this new focus on competitive returns and a growth objective.

10.2.2 The importance of professional language competencies

This strategic change can also be understood as an attempt to make IFU more attractive to its private partners. When asking Torben Möger about his view on the changes among IFU employees he argued: *“I can say that it is an ongoing process. The fact that IFU has recently chosen that their main focus will be partnerships with private investors, has also put pressure on IFU to develop their own organization in this direction.”* (Torben Möger, 2018: 4-5)

These competencies not only provide the formalized skills of how to engage professionally with investment and financing but also the informal ability to *speak the language* that is spoken within the professional sphere of institutional investment. Magnus Cedergren (2018:6) argues that one of the greatest barriers to blended finance is the different professional languages and vocabularies used by development professionals and investment professionals *“they [the investment professionals] talk a completely different language than the development people”*. Magnus Cedergren has in his position as chief of guarantees in the Swedish development agency, Sida, incurred challenges in bridging the private sector and development agencies due to a communication gap. For him a natural strategy became to hire people from the banking sector: *“we needed to have people who could communicate with these partners [banks and private sector], who understand their business model, who understand what they are after. So, we need to understand the language of the partners”* (Magnus Cedergren, 2018: 6).

If similar challenges have been present in IFU, this would provide those with private sector experience more power in shaping the way IFU interacts with the pension funds as they are in a better position to understand and communicate with them. IFU, as an organization, is placed in between Danida and the pension funds and has to be able to successfully manage the demands of both these partners. As

IFUs strategy have become more focused on the partnership with pension funds the demand for professionals with capabilities and backgrounds within finance and investments have increased. They are better suited for bridging the gap in understanding between development agents and institutional investors. This provides them with a greater ability to act as agents of change insofar as they define the direction of change when new partnerships are forged

10.2.3 The new management and its role in the changing nature of IFU

Applying the analytical framework of agents of change, we can see how this change in employee composition can explain several important changes that IFU have undergone in recent years. We have observed a change within the professional expertise of the IFU management, both at the level of the CEO and at the VP level. This change constitutes the entrance of private sector experience and competencies. Coinciding with this we have observed organizational changes in IFU towards the incorporation of objectives that are valued highly within the private sector. Applying the theoretical framework of institutional entrepreneurship, we argue that the new IFU management, and especially Tommy Thomsen, have led the organizational change that is constituted by an increased focus on competitive returns and aggressively growing their portfolio. Underlining this change is the fact that IFU now puts considerable emphasis on their high returns when explaining their own success and as a way to market themselves. This shows that the focus on returns have become an active part of the organizational strategy. This was not the case ten years ago, when the organization was decidedly quiet about the returns they made on their equity investments. In line with the theory by Battilana, Leca, & Boxenbaum (2009), Lawrence & Suddaby (2006), and Zilber (2002) this suggests that agency on part of the management have designed this strategic overhaul by actively importing management practices and objectives from their private sector experience. We also provide an argument for the circumstances enabling such agency, which in this case is the political shift from the aid effectiveness paradigm to the development effectiveness paradigm, and the demand for language skills that enable these individuals to navigate their environment intersecting both the private sector and the public development scene.

10.3 Conclusion, Analytical framework 3: the agents of change in Danish development finance explanation

The agency focused analytical framework explains the increased use of blended finance in Danish development assistance by taking a starting point in interpreting IFU's partnership with Danish pension funds to be a mean by which IFU enhances its institutional legitimacy. This collaboration contains a resource asymmetry that affords the pension funds greater bargaining power over IFU. This bargaining power explains how the pension funds have influenced the character and construction of Danish blended finance modalities such as the thematic funds and the preferential return model that it contains. IFU's quest to attract pension funds has opened a space for institutional entrepreneurs from the private sector to penetrate the IFU organization. This has enabled intensive import of private sector institutions leading to IFU increasingly behaving like a PE-fund.

10.4 Limitations to the agents of change explanation

The agents of change framework explain the changes towards blended finance in Danish development assistance as an outcome of the collaboration between IFU and a group of Danish pension funds and the power asymmetry that is embedded within it. The agency focused perspective fails to account for the blended finance movement as an international tendency. It hence misses important empirical aspects in its provision of an explanation of Danish development assistance's change towards the increased use of blended finance.

11.0 Conclusion – the changes towards blended finance in Danish development assistance and their explanations

What are the changes towards blended finance in Danish development assistance, and what can explain these?

We observe the following changes towards blended finance in Danish development assistance 1)
Danish aid has a new core purpose of catalyzing private investors towards development objectives.
This is a clear-cut adoption of the reconceptualization of aid evident within the Agenda 2030 and the

corresponding Addis Ababa. This implies an altered purpose of not only aid but also development agencies; Danida and IFU's core objective is now to attract and mobilize private partners into development assistance. 2) The increasing prevalence of thematic funds in IFU has led to a subsequent increased involvement of private investors. The increasingly close partnership between Danish pension funds and IFU has developed in an incremental manner over a long time-period, however, the size and scope of the thematic funds have recently experienced quite significant increases. 3) In order to attract private investors, IFU is changing towards looking like a private PE-fund. It does so by explicitly stating and pursuing a growth objective, by increasing its average investment sizes which implies more effective investment management, by substantially increasing its returns to levels of a private PE-fund, and by hiring professional with extensive experience from the private sector. These changes have been incurred over the period of the last five years. 4) IFU's mandate has changed as a consequence of the Government's willingness to support IFU's objective of attracting private investors. IFU explicitly stated a wish to soften its mandate in order to enable investment growth and in order to also in the future allow investment in a group of countries that were experiencing high growth rates. This wish was met in incremental steps by first broadening the investment mandate for IFU managed funds, then expanding by only requiring the presence of Danish commercial interest, and then completely untying the mandate and allowing investments in all DAC-countries. 5) Finally, change towards an increased scope of blended finance modalities in IFU signifies a movement of activities from a politically controlled organization to a semi-autonomous organization. We can sum up our findings of changes towards blended finance in Danish development assistance by concluding that Danish development assistance is changing towards the increased use of blended finance. It does so not only by increasingly involving as well as seeking to attract private investors, IFU is also increasingly organizing like a private organization.

We derived an analytical framework from core perspectives of sociological institutionalism to explain the changes we observe towards the increased use of blended finance. Analytical framework 1, the international aid paradigm perspective, explains changes towards blended finance in Danish development assistance as an outcome of Addis Ababa's ability to effectively define and strengthen a

process of abstraction, theorization, standardization, and language creation around blended finance. This process enabled an effective diffusion to Danish development policy, which quickly internalized the blended finance concept. Analytical framework 2, the field pressure framework, explains changes towards blended finance as an outcome of the combination of the internalized institutional practices of IFU and Danida from before the emergence of the development effectiveness paradigm with the framework for appropriate behavior of the development effectiveness paradigm when it emerged. Thus, IFU has changed towards the increased use of blended finance because its embeddedness within the Danish private sector field enabled it to easily internalize the development effectiveness paradigm and the blended finance concept when it emerged. Correspondingly, Danida has enabled the increased use of blended finance in IFU by outsourcing programs. This can be explained by a combination of Danida's institutionalized outsourcing practice combined with the emergence of the development effectiveness paradigm. Analytical framework 3, the agency focused analytical framework, explains the changes towards blended finance in Danish development assistance as an outcome of the collaboration between IFU and a group of Danish pension funds. The power asymmetry entailed in the collaboration has afforded the pension funds the power to shape the character of Danish development assistance by determining the thematic fund structure and its preferential return model that have led to changes towards blended finance. Furthermore, the collaboration has opened a space for institutional entrepreneurs from the private sector to penetrate the IFU organization, which explain the intensification of IFU's efforts to organize like a private organization promoting an organizational focus on growth and profits, which is a change towards the increased use of blended finance.

Hence, a broad variety of institutions and organizational interaction explain change towards blended finance in Danish development assistance. These institutions are at play both at the global level, at the level of the organizational field, as well as at the level of the individual organizations and the professionals that inhabit them. The institutions, no matter their spatial embeddedness, have in common that they emphasize the benefit of involving private investors in the achievement of development objectives. IFU' and Danida's interaction with these institutional dynamics, which are an

outcome of their quest to maintain and enhance legitimacy, explain Danish development assistance's change towards blended finance. Thus, in its essence, we can explain the changes towards blended finance in Danish development assistance as an outcome of IFU and Danida's quest to maintain and enhance their legitimacy as organizations engaged in development assistance.

Analytical framework	Agency/ Structure	Homogenization / Heterogenization	Explanation
International aid paradigms	Structure	Homo	The increased use of blended finance is an outcome of the diffusion of international aid paradigms to the national context. Universalized norms, theorization, and networking has enabled and intensified the diffusion of the development effectiveness paradigm. The diffusion of the development effectiveness paradigm explains why the core purpose of aid in Denmark has become catalyzing private investment
Interaction with the development finance and private sector fields	Structure	Homo & Hetero	<p>IFU's increased use of blended finance is an outcome of IFU's embeddedness in the Danish private sector field. Since IFU's institutional practices were deeply convinced and informed by the institutions of the Danish private sector field, IFU was placed in a unique position to take advantage of the development effectiveness paradigm when it emerged.</p> <p>Danida's legitimacy crisis conditioned it to mimic the development effectiveness paradigm, while Danida's institutionalized practice of outsourcing made the transfer of programs to IFU a viable way of mimicking the development effectiveness paradigm. Danida's decision to transfer programs to IFU lead to IFU administering an increased scope of blended finance modalities that contributed to IFU's increased centrality in Danish development assistance.</p>
Agents of change	Agency	Homo & Hetero	<p>Pension funds' bargaining power over IFU has enabled them to influence the character and construction of Danish blended finance modalities such as the thematic funds and the preferential return model that it contains.</p> <p>IFU's quest to attract pension funds has opened a space for institutional entrepreneurs from the private sector to penetrate the IFU organization. This has enabled intensive import of private sector institutions leading to IFU increasingly behaving like a PE-fund. Homogenization is at play because a public organizations increasingly conform to a private organization structure.</p>

Table 4 Analytical framework with concluding findings

12.0 Contributions and implication of the findings of our thesis

12.1 Empirical contributions

In the introduction to our thesis, we identified two holes in the development assistance literature.

First, no practitioner or academic research has uncovered the change in Danish development assistance towards the increased use of blended finance. Second, and interrelated, the development aid literature has not engaged with the conditions under which national development organizations adopt and discard aid paradigms. Our ambition with undertaking this exploratory case study of Danish development assistance has been to cover these holes in the literature. We have provided and account for the development of Danish development assistance towards blended finance, and we have established how idea and norm dynamics crossing spatial boundaries but embedded within the development effectiveness paradigm have shaped and conditioned IFU and Danida's organizational change towards blended finance. Our hope is that academia will use our empirical finding to, for example, performing the same study in another national setting to determine the generalizability of our findings across national contexts. At a more fundamental level, we have equipped stakeholders, practitioners, and academia with access to information that can aid them with an understanding of the extent and character of the change Danish development assistance is currently undergoing. We encourage the public to develop an informed opinion on this matter. Finally, our theoretically grounded explanation for the changes Danish development assistance has undergone is an invitation to practitioners to increase their self-awareness of the motives that guide the construction and implementation of aid modalities.

12.2 Theoretical contributions

We respond to the call for applying sociological institutionalism to the empirical field of development policy (Moe Fejerskov, 2016). Our analytical framework has uncovered the presence of a great density of institutional dynamics. We can thus confirm the usefulness of sociological institutionalism in a field in which it has never been applied before. We thus add to the general strength of sociological institutionalism, at the same time, we can correspondingly confirm the validity of our empirical findings as they fit with theory. We however identify an area where sociological institutionalist theory can be strengthened. In our application of the second analytical framework, it became clear to us that the

ability of an organization to adopt to internalize new institutions from the field depends on the sets of institutions that are in place within the organizations already. If the old institutions complement the new one, adoption is easy. If not, it is harder. This is essentially what explains IFU's easy adoption of the development effectiveness paradigm. We invite sociological institutionalism to theorize further about this issue. This means that there is potential for an improvement of sociological institutionalism by generating a better theoretical understanding of how previous organizational institutions shape the adoption of new institutions. We know theorization of this phenomenon exists within historical institutionalism in the form of the path dependency concept. It would be good to see an application of the path dependency in a way, which also makes it capable of explaining change. This is so, since historical institutionalism is inapt of explaining change.

12.3 Implication of the methodological and philosophical premises

Moving from the theoretical and empirical contributions and implications resulting from our thesis we will now turn our eyes to the implications of our methodological and philosophical premises. We will enter this discussion by drawing attention to our analytical framework and how we have employed three different perspectives to explain the same phenomena. Our analytical perspectives contain complementary aspects. This is not surprising given that they are all grounded in the same family of sociological institutionalist thought. Indeed, we argue that the application of three analytical perspectives grounded in the same school of thought grants our findings analytical depth; we can treat the presence of complementary and overlapping explanations as signifying that our explanation in question indeed is based in spheres closer to reality.

Yet the different perspectives are also distinct. The application of an analytical framework derived from theory to explain the social world cannot avoid providing a stylized account. This is so, since the theoretical perspectives guide where in the social world we look to find explanations, as well as what evidence and argumentation to include and what not to include. This means that the analytical frameworks each are likely to disregard relevant explanations for the increased use of blended finance. Indeed, the international aid paradigm perspective is so pre-occupied with international structures that it fails to account for why it is IFU and not Danida that administers and carries out the

increased use of blended finance. The field pressure perspective cannot explain why blended finance modalities take the form they do; it cannot explain why Danish blended finance, for example, has taken the form of thematic funds with preferential return models. Finally, the agency focused perspective fails to account for the blended finance movement as an international tendency. For us, the application of different perspectives is a strength exactly because they complement each other, and thus provides for a fuller understanding of blended finance in Denmark. The fact that each perspective would only have revealed limited insight on its own shows how important it has been for us to be aware of the exploratory nature of our study, in which we have not had access to prior research to guide our choice of perspective.

And so, as Allison argues, *“what each analyst sees and judges to be important is a function not only of the evidence about what happened but also of the conceptual lenses through which he looks at the evidence”* (Allison, 1969; 689). In this sense, the purpose of the second part of our thesis has been to explore some of the fundamental assumptions and concepts employed by three core perspectives of sociological institutionalism in thinking about organizational change in IFU and Danida. Our findings underline our moderately constructivist ontology. Objective explanations of organizational change are impossible. We all understand the social world through our own conceptual lenses that are grounded in the culture, ideas, traditions, and history in which we are embedded. Yet, we are *moderately* constructivist in that we do establish that events have occurred in Danish development finance that have led to the increased use of blended finance. In the same manner Allison recognizes and assigns the event of the Cuban missile crisis importance. Yet, argues that the event can be explained by distinct theoretical standpoints. In this sense, our thesis has added proof to the usefulness of Allison’s arguments and the moderately constructivist ontology.

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