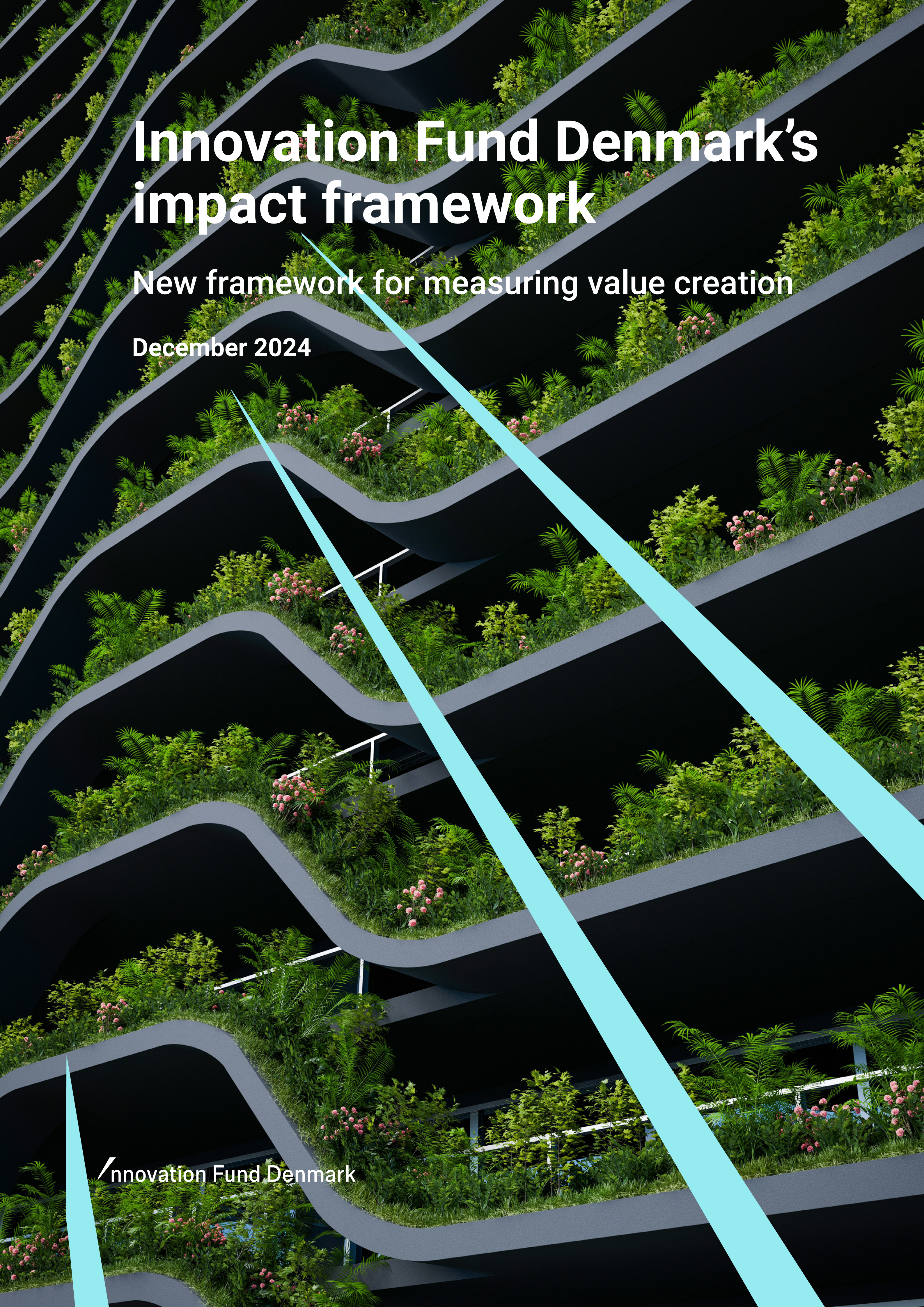
Innovation Fund Denmark's impact framework

New framework for measuring value creation

December 2024



Innovation Fund Denmark

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We need to know what works

Innovation Fund Denmark was set up to create growth and employment and to find solutions to societal challenges. To enable documentation of the value created by the fund's investments, the fund has developed a framework to help us identify the results and success of projects. The framework is the first important step: a clear narrative about what it takes for an investment to create societal impact and how IFD helps create the conditions for this success. This is the narrative you hold in your hands – Innovation Fund Denmark's impact framework. The next steps are to power this narrative by using targeted data to learn more about whether IFD's programs create the desired results, whether IFD is establishing the necessary conditions for success, and whether the assumptions that tie the narrative together are correct. With this knowledge, Innovation Fund Denmark can develop its programs to maximise the societal impact of Innovation Fund Denmark's investments.

Enjoy the read,

Cecilie Brøkner,
Director, Innovation Fund Denmark

Content

1.0

Innovation Fund Denmark's impact framework

How successful are Innovation Fund Denmark's (IFD) investments? Which projects should the fund invest in? And how do you attract the right applicants? The answers to these questions can be found through targeted data collection and well-designed analysis. This requires a description of the expected results, what conditions IFD's activities and programs create, and how these conditions are expected to lead to the results. It is this narrative that IFD's impact framework unfolds. With a clear narrative, it is possible to target data collection, visualisation, and analysis, so that IFD's societal impact and the path to it can be made visible.

There are two main purposes for making the impact of IFD more visible:

1. **External documentation:** IFD's primary task is to maximise the impact of the public funds it manages. Therefore, it is crucial to be able to document the results that IFD's investments lead to. This is done by setting welldefined goals for the grantees' outcomes, which are systematically documented, analysed, and reported. This makes visible the value that IFD can create for society from public funds and blended finance with new partners.
2. **Internal learning:** Impact can become the subject of learning when the desired impact is made visible through a clear framework and followed by ongoing, systematic data collection. When staff and management can track outputs from the foundation's activities and outcomes for grantees, they can learn about the results of existing practices and develop new approaches. Continuous learning and development will support IFD in increasing the impact of the public funds invested through its programs. A stronger focus on impact will also attract the right applicants and make grantees direct their projects more towards impact.

The key stone of the impact framework is a *theory of change* that provides a clear narrative of successful IFD investments and maps the preconditions for success. This is complemented by a theory of action that describes how IFD activities and outputs create the necessary conditions and support the path to success.

This document unfolds the theory of change and theory of action. Together, they will serve as a framework for a monitoring model where relevant indicators will be developed to measure the key elements. The ambition is to have these data readily available to both external stakeholders and internally within IFD to support key decisions.

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In addition, specific evaluations will be conducted based on the impact framework; both to get closer to the causal effect of IFD investments on grantees' outcomes, and to shed light on IFD's contribution to long-term outcomes and societal impact.

Theory of change as a frame

A theory of change is a description and illustration of how and why a desired change is expected to take place when certain activities are initiated in a given context. The theory of change for IFD's investments serves to:

- Provide a *clear narrative* of a successful IFD investment,
- Map *the conditions for this success* that can be tracked during the grant period, and
- *Identify the key outcomes* that IFD investments create, which establish a basis for long-term societal impact.

The framework set by the IFD Act

IFD activities and investments are governed by the IFD Act, and Figure 1 maps the Act as a theory of change. This illustration serves to visualise the logic of the Act and the outcomes and longer-term impact that IFD is expected to generate through its instruments. The theory of change for IFD investments applies the wording of the Act to the long-term outcomes (improvements) and impact of IFD investments. See Box 1 for terminology.

BOX 1: Terminology for theory of change

The theory of change uses adapted terminology that leans on standard intervention logic.

Activities: IFD's activities in the application and grant phase.

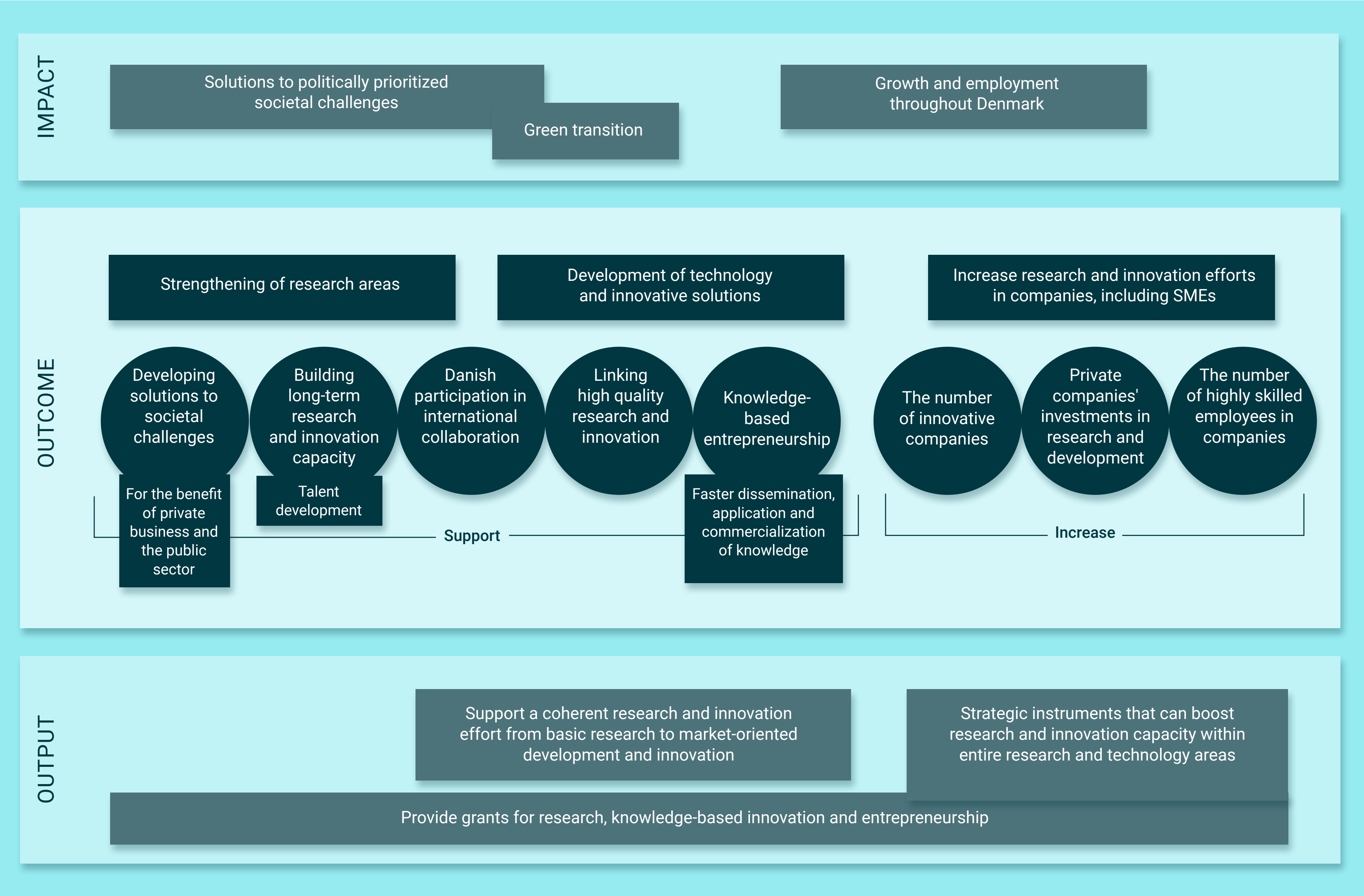
Outputs: Direct results of IFD's activities.

Outcomes: New behaviors among grantees and results of these behaviors. Outcomes are divided into three subcategories:

- *Preconditions* at the time of application: the necessary preconditions and conditions for grantees that enable future success.
- *Changes* during the grant period: new behaviors that grantees exhibit as a result of the investment, and the specific new innovations and their implementation resulting from these.
- *Improvements* after the grant period: the lasting outcomes that emerge.

Impact: Societal change to which IFD contribute

Figur 1: Act as a theory of change



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The investment principles of Innovation Fund Denmark

Innovation Fund Denmark's strategy 2024-2026 outlines three investment principles that guide the fund's investments:

1. **TAKE** the early risk where the market is still hesitant.

2. **BUILD** bridges between research, companies, and public authorities.

3. **INVEST** in projects with a high level of innovation and a clear focus on impact and sustainability.

These principles have also guided the development of the theory of change. The principle of focusing on sustainability is new and will be incorporated into the Fund's programs during 2025. Sustainability is therefore included in this impact framework to support the work going forward.

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Theory of change for IFD's investments

Currently, IFD has a portfolio of seven instruments aimed at different target groups and with varying weight on the different outcomes described in the IFD Act. Although the programs are different in nature, they have overlapping purposes and aim for the same outcomes, such as bridging high quality research knowledge and innovation. At the same time, the diversity of projects within a program is high, with project goals ranging from commercial success with a new product category to groundbreaking research results that point to new solutions to societal challenges. Despite differences in these long-term *improvements*, even within the same program, there is a high degree of similarity in IFD *outputs* and grantee *preconditions* and *changes* across all programs.

With a dominant similarity across programs, it is useful to have a common theory of change that sets the framework for consistent data collection across programs. The diversity of programs is accommodated by having specific indicators and their own success criteria. The final section of this document describes the process that has led to this framework.

The proposed theory of change for all IFD's investments is presented in Figure 2 and maps the grantee's assumptions, changes, and improvements. The figure illustrates the narrative of a successful IFD investment, which is elaborated below.

BOX 2: Evaluation questions

This impact framework is designed to address three key questions:

1. How successful are IFD's investments?

2. Which projects should IFD invest in?

3. How can IFD attract the right applicants?

The theory of change for IFD's investments sets the frame for investigating question 1.

The theory of action for IFD's activities sets the frame for investigating question 3.

Both frames are needed to investigate question 2.

The story of a successful IFD investment

A successful IFD investment bridges the gap between research, companies, and public authorities through a project with a high level of innovation and a clear focus on impact and sustainability. During the grant period, a number of changes must take place for the investment to lead to impact. Grant recipients must establish a trusting and constructive collaboration between project partners and/or external knowledge providers to enable high-quality research and knowledge to be coupled with innovation. The collaboration can achieve long-term impact when the grantees work together towards the common goal of developing a solution to a

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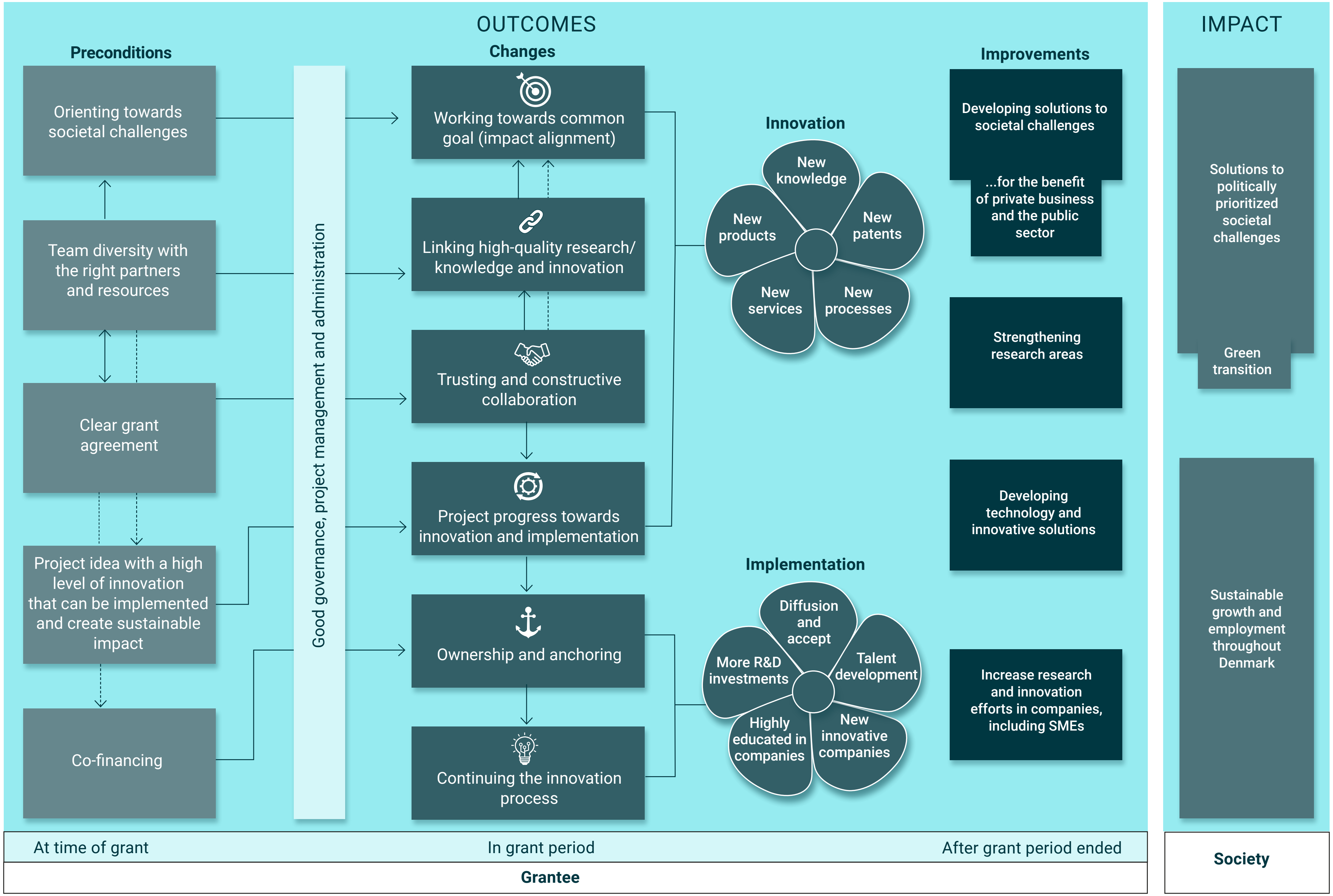
societal challenge and creating a business or implementation opportunity, as described in the application (impact alignment). During the grant period, there is momentum towards innovation and implementation, reducing the risks associated with investing in the idea. Innovation and implementation are anchored and owned by one or more partners to ensure that the work is carried on after the grant ends. The innovation process continues after the end of the grant period, e.g. by attracting new external funding, leading to one or more of the following improvements after the end of the grant: strengthened research areas, new technology and innovative solutions, strengthened research and innovation efforts in companies, and continued development of solutions to societal challenges that can be implemented. In this way, IFD's investments can achieve long-term societal impact through solutions to societal challenges, including the green transition, as well as sustainable growth and employment throughout Denmark.

There are a number of indicators that capture project progress through concrete *innovations:* new knowledge, products, services, processes, and patents. Similarly, there are indicators that track *the implementation* of the innovations, which will typically take place as the innovation process is embedded and continued: diffusion and acceptance of new innovations, talent development, more research and development investments in companies, more highly skilled employees in companies, and more innovative companies. IFD's investments are diverse and there will be differences from project to project in the expected innovation and imple-mentation needed for a project to succeed. However, there will be few projects that can succeed without demonstrating any inno-vation and implementation (illustrated as propellers in Figure 2). These are the stepping stones towards long-term outcomes and impact.

The preconditions for a successful collaboration are often a diverse team with complementary skills and the right partners and resources, who enter into a clear grant agreement that, for example, describes the allocation of responsibilities and rights. This varies across programs and can, for example, be an investment agreement or a grant letter that sets out the terms of the grant. The team must have the willingness and ability to orient themselves towards societal challenges and express an idea for a project with a high level of innovation that can be implemented and create sustainable impact. This sets the stage for the team to work together towards a common goal. A clear grant agreement is necessary for the partners to dare to contribute co-funding, and it also helps pave the way for ownership, anchoring, and future implementation. Good governance, project management, and administration are the glue that binds the preconditions together with the changes and creates progress.

Figur 2: Theory of change for IFD investments



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Theory of action for IFD's activities

To unfold the role of the IFD, Figure 3 presents a theory of action for IFD's activities in the application and grant phases. The theory of action maps the important outputs of IFD's activities that create the necessary conditions for attracting the right pool of applicants and selecting the right projects for investment in the application phase, as well as the outputs that support IFD's projects in the grant phase and increase the likelihood of successful investments.

In *the application phase*, it is crucial to attract many qualified applications and achieve an appropriate success rate that is neither too high nor too low. Broad representation among both the applicant field, and also among the selected grant recipients, is essential to fulfil the commitment to ensure diversity and unlock innovation potential for all of Denmark. The important outputs to attract the right applicant pool are mobilisation activities with wide reach and equal treatment of different target groups, as well as a simple, flexible, and user-friendly application process.

In *grant decisions*, high quality in the evaluation of applications plays a vital role, with the following keywords: uniform understanding of the evaluation criteria, broad and deep expertise, transparency, equal treatment, and impartiality. The evaluation is based on assessment criteria that reward innovation excellence, implementability and a well-described potential to create sustainable impact.

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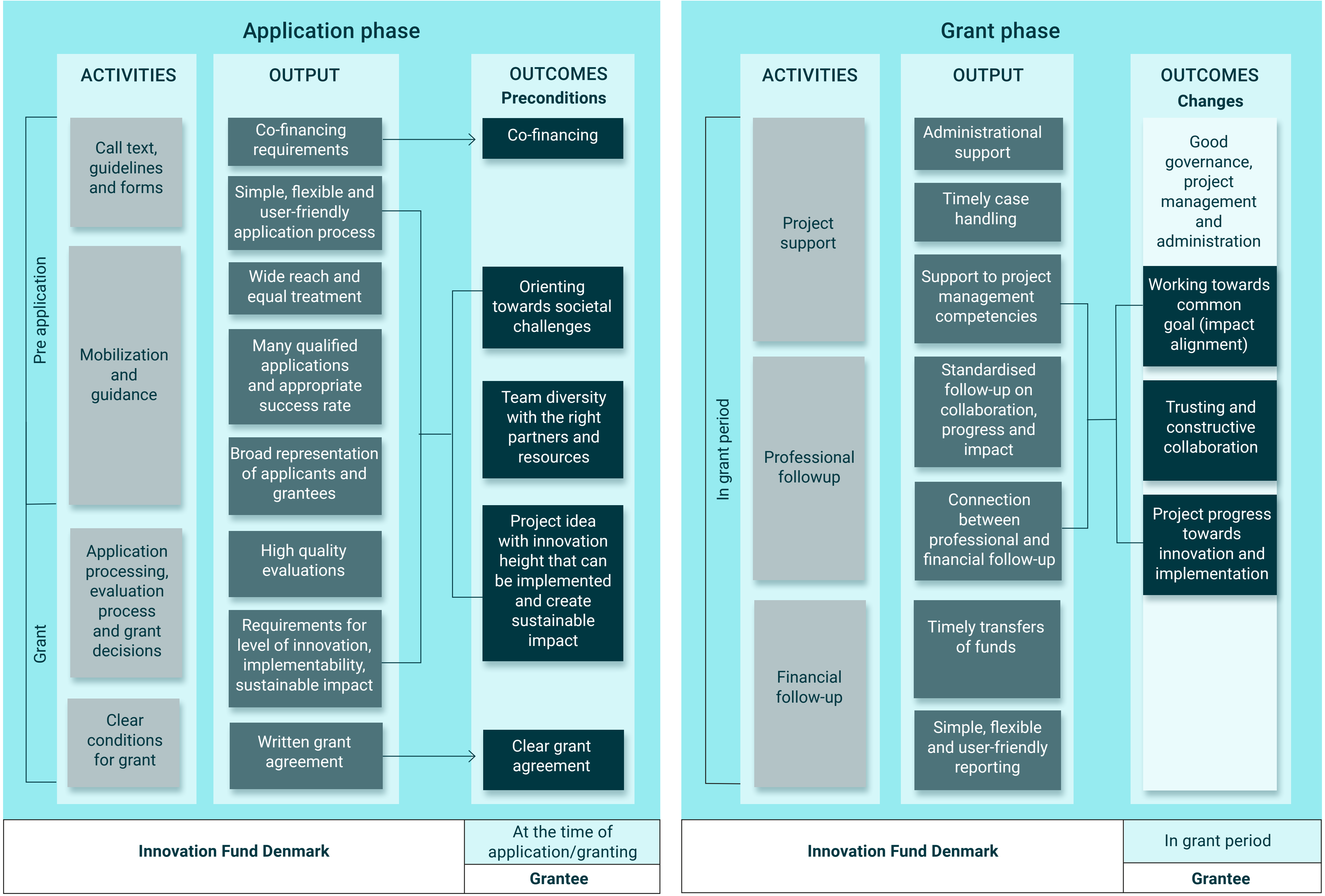
Together these outputs, which serve to attract applications and evaluate them, create the three important preconditions for grant recipients: willingness and ability to orient themselves towards societal challenges, team diversity with the right partners and resources, and a project idea with a high level of innovation that can be implemented and create sustainable impact.

The last two preconditions for grant recipients follow directly from the co-financing requirements in the program guidelines and the written agreement basis for the grant.

In *the grant phase*, good governance, project management and administration are promoted among grant recipients through a number of outputs of IFD's activities: administrative support, timely case management, support to develop project management skills, a strong link between professional and financial follow-up leading to timely payments, and last but not least, simple, flexible and user-friendly reporting. The three key changes in grant recipients are: impact alignment, trusting and constructive collaboration, and project progress, and these are supported through IFD's professional follow-up, while support for project management skills also plays a role.

Figur 3: Theory of action for IFD activities



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Visible impact: From framework to monitoring, evaluation and learning

Visible impact is a strategic focus in IFD's strategy 2024-2026. To achieve a strong internal learning culture and solid external documentation of IFD's results, the following approach is implemented over the three-year period:

1. **Clear narrative on the path to successful IFD investments**
   This publication presents an impact framework that provides a clear description of a successful IFD investment as well as assumptions about the conditions that IFD activities and programs need to create to support this success.

2. **Program-specific indicators with success criteria**
   For each of IFD's programs, specific indicators for IFD outputs and grantee outcomes are established based on the impact framework. Output targets for IFD's activities are used to examine whether the fund establishes the desired preconditions for the grant recipients. The outcome targets are compared to success criteria and are thereby used to illustrate the success of the programs.

3. **Easy data access for visualisation and analysis**
   Streamline data collection so the necessary data is collected in an efficient manner and made readily available for visualisation and analysis. Stop collecting unnecessary data to reduce the reporting burden on the grantees.

4. **Data-driven decisions**
   Based on decision-making processes in IFD's management and programs, visualisations of monitoring data with relevant benchmarks and data analysis are created and used to support the given decisions. Management and employees use data to support decisions on the fund's investments, activities, and overall strategy.

5. **Impact evaluations: causal effect on outcomes and contribution to societal impact**
   IFD's programs are regularly evaluated with a focus on examining the causal impact of IFD's investments on outcomes for grantees, i.a. through the use of comparison groups where possible. In addition, thematic evaluations of the contribution of IFD's investments to solving prioritised societal challenges are conducted.

6. **Risk analysis**
   Since IFD must take the early risk where the market is still hesitant, it is essential to link impact analysis with risk analysis. Promising, low-risk projects that can attract private investments do not need public funding. A one-sided focus on achieving

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good outcomes for all grant recipients would lead to the rejection of innovative projects with a high level of innovation and high risk. Analysis of risks in IFD's investments must therefore support decisions on the degree of risk that IFD should take.

The creation of Innovation Fund Denmark's impact framework

This impact framework has been developed on the basis of a number of inputs.

- Relevant legal documents, including i.a. the Innovation Fund Denmark Act, no. 1660 12/08/2021, and Agreement on distribution of the research reserve 2024.

- Workshops with employees and managers of the seven instruments (Grand solutions, Innomission, International collaborations, Innofounder, Innobooster, Innoexplorer, and Industrial Researcher).

- Individual interviews with IFD's management and program managers, as well as a joint workshop.

- Dialogue with impact managers in several public and private foundations in Denmark and the Nordics.

- Consultancy support from Pluss Leadership.

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