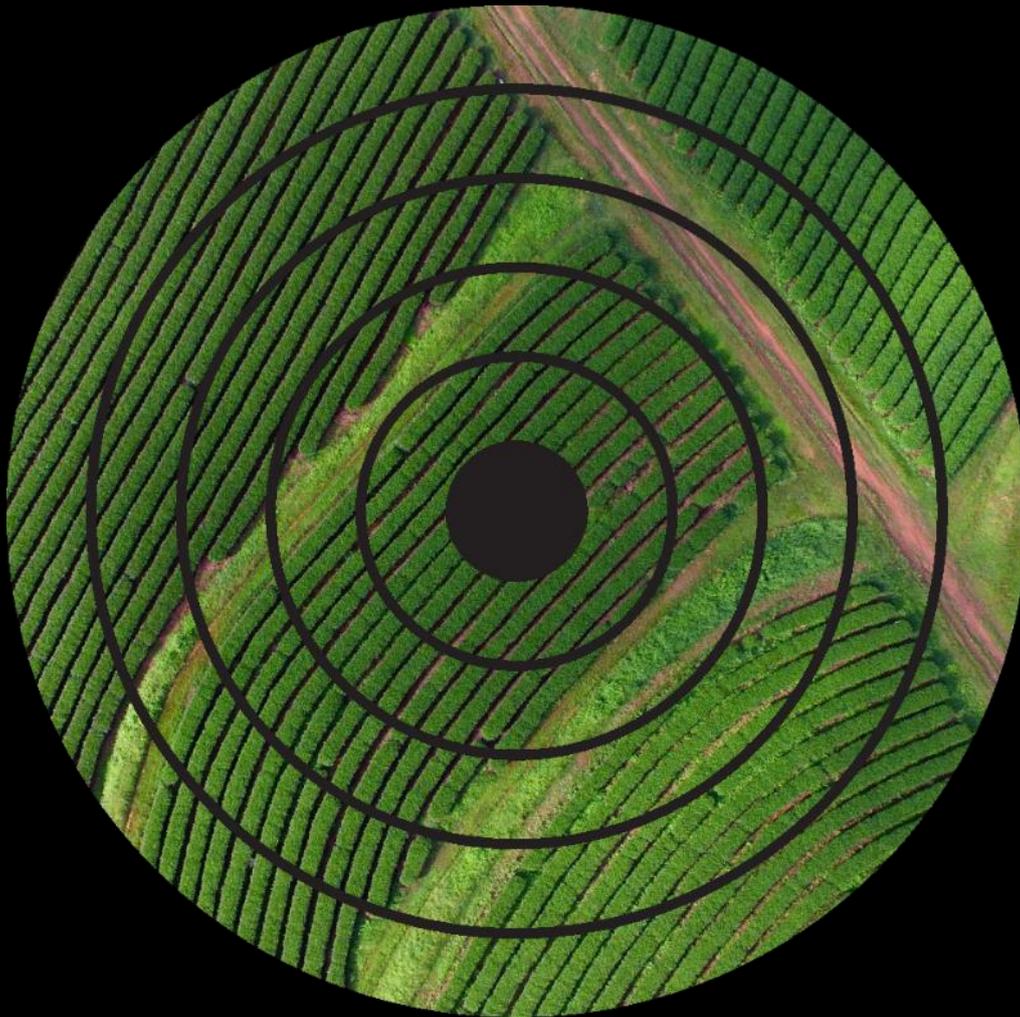


DFID-CDC Evaluation and Learning Programme

2017-2023 plan



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1. Background

In October 2017, DFID announced its commitment to provide up to £3.5bn of additional capital for CDC to invest in businesses in Africa and South Asia – enabling CDC to deliver the ambitions set out in its 2017-21 strategic framework. A central focus of this new strategy is on embedding development impact more deeply across CDC’s investment decision making, portfolio management and reporting processes.

This document builds on commitments made in the 2017 CDC business case, and presents a comprehensive monitoring and evaluation programme for CDC between 2017 to 2023 [and beyond], with the aim of ensuring that DFID and CDC collaborate effectively to better understand CDC’s development impact. This document provides detail on: CDC’s enhanced monitoring processes, objectives of an enhanced evaluations and learning programme, proposed evaluation activities under this programme, and, a management and governance structure to oversee it.

2. Why do we need to monitor and evaluate CDC’s development impact?

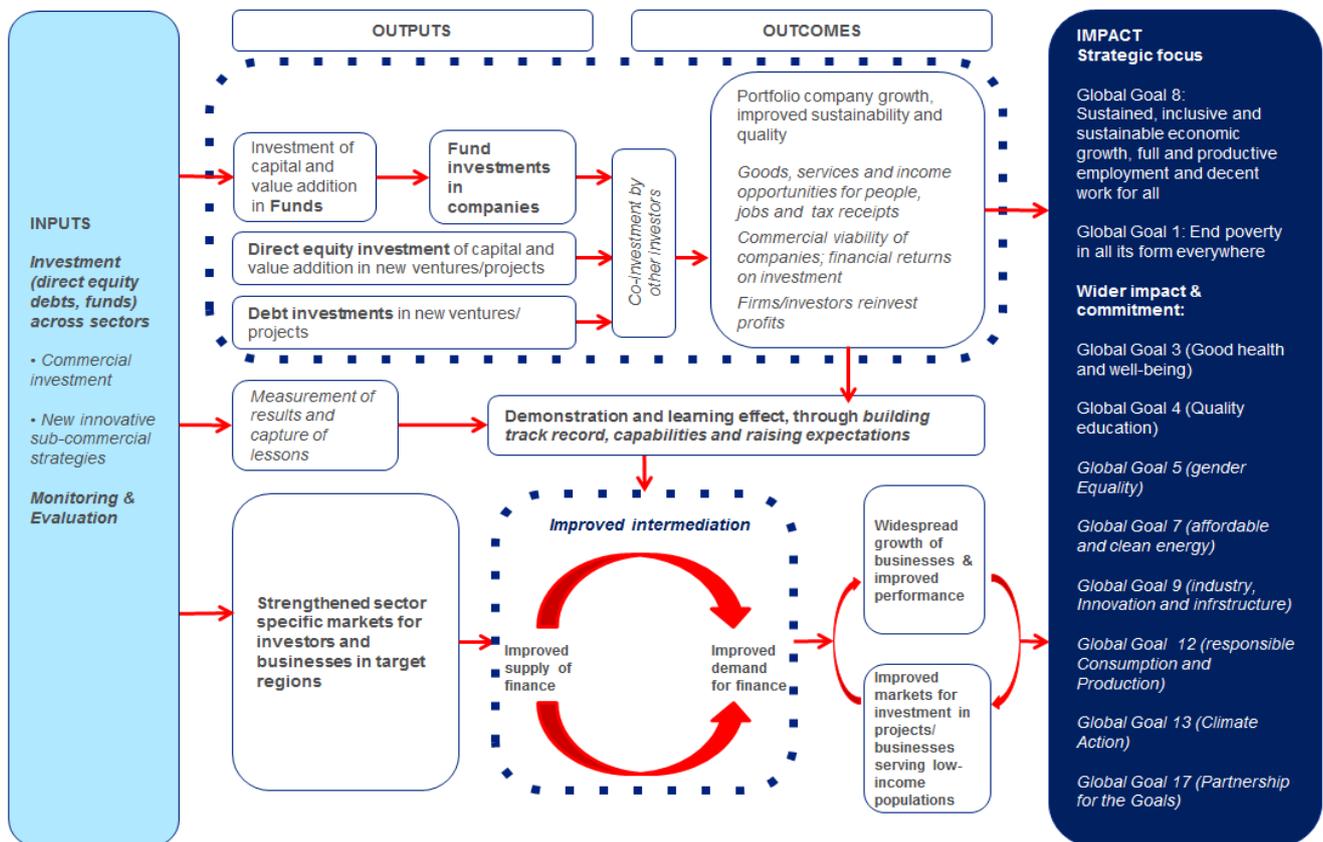
Ongoing monitoring and periodic, longer-term evaluations of CDCs impact are critical to help DFID and CDC better understand how, and in what contexts, CDC’s investments deliver tangible, sustainable development impact on people, businesses, sectors and overall economies. This information is crucial to help CDC target investments and track results in those businesses and sectors where it can have most impact, and can be used to inform both portfolio management and investment decisions. By filling critical evidence gaps in CDC’s Theory of Change, monitoring and evaluation will also: support transparency and accountability; contribute to the wider understanding of the development finance community; and ensure CDC’s capital is invested effectively to deliver value for UK taxpayers.

3. What development impact do we think CDC has and what does the evidence tell us?

The Theory of Change underpinning CDC’s activities is set out below in Figure 1, which summarises the four stages from input to impact – illustrating how DFID, through CDC:

1. will deploy commercial investment and scale new innovative approaches of sub-commercial capital – inputs
2. which will provide both much needed capital and expertise to businesses (capacities, skills, practices & standards) as well as strengthen sector specific markets for businesses and investors – outputs
3. which in turn will spur growth in quantity and quality of portfolio companies, building a track record of viable and successful investments to achieve demonstration effects to other investors (improving supply and demand for finance) as well as help build improved markets (improving supply and demand for enabling goods and services – e.g. power – in the economy) – outcomes
4. all of which will contribute through jobs and tax receipts to sustainable economic development – **impact** - to contribute to a range of Global Goals to reduce poverty – **super goal**.

3.1 Figure 1: DFID Investment Capital Theory of Change

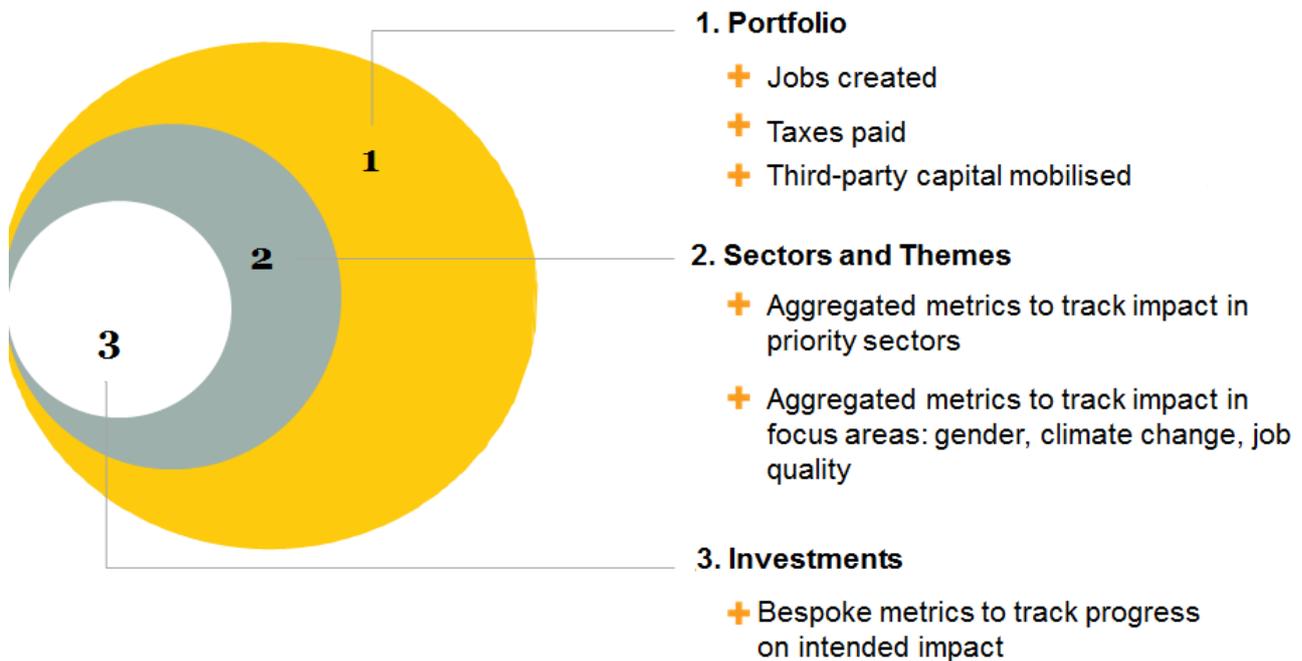


Monitoring data, case studies and shorter term evaluations and studies from CDC and other DFIs identify that investments made are having positive development impacts. However, differing definitions of development impact, the wide range of indicators used across organisations, the challenges and cost of collecting empirical evidence, and the lack of publicly available data for researchers to interrogate makes it difficult to draw robust and comparable conclusions about the types and depth of impact achieved by DFIs overall.

Moreover there is little robust empirical evidence underpinning the longer term impacts DFIs aim to achieve for many of the same reasons mentioned above. This is particularly the case for the broader transformational impacts that investments may have at the sectoral level, and the longer term demonstration effects that DFIs can have on the availability of finance and investor perceptions of risk in new markets; - although again, qualitative data and studies do point to positive effects in these areas.

4. What information does CDC already collect to understand development impact?

4.1 Figure 2: Metrics Tracked under CDC's Impact Management Approach



Through use of the Development Impact Grid¹, CDC also assesses the potential impact of each investment, based on geography and sector, when screening investment opportunities. This ex ante measure can then be compared against the actual (ex-post) development impact of its investments. This enables feedback loops into CDC's future investment decision making and activities, helps stakeholders understand CDCs development impact and can also be used as a source of secondary data for future in-depth evaluations of CDC. Box 1 highlights the key areas of development impact that CDC will track during the 2017-2021 strategy period.

¹ The Development Impact Grid is used by CDC to assess, ex ante, the development impact of investments. It forms a core part of CDCs investment decision making process.

Box 1: CDC's Enhanced Investee Data Monitoring

CDC has committed to:

- Defining a development impact thesis for each individual investment that represents a clear statement of why CDC is making a particular investment to b
- Calculating a development impact grid score for each investment which reflects a investment's propensity to create jobs, and the difficulty of its geography
- Tracking development impact metrics on every investment at the portfolio, sector / theme and investment level
- Supplementing these metrics by conducting brief exit review of all direct investments and funds at the end of the investment (or fund dissolution).

Beyond regular monitoring, CDC also commissions focused independent evaluations to fill critical evidence gaps in specific sectors and on key topics. These evaluations are approved by, and progress against them reported to, the Development Impact Committee of the CDC Board (DevCo). Terms of reference are typically reviewed by DFID and external advisers, and the studies procured competitively from independent evaluators. These types of evaluations will continue as part of CDC's enhanced programme. Evaluations of this type include:

- ✦ *'The Impact of Funds: An Evaluation of CDC 2004-12'* by Professor Josh Lerner et al. (Harvard Business School); Published in October 2015
- ✦ *'What is the Link Between Power and Jobs in Uganda?'* by Steward Redqueen; Published in November 2016
- ✦ *'Evaluating the Impact of Private Providers on Health and Health Systems'* by the Institute for Global Health Innovation, Imperial College London; Published in June 2017
- ✦ *Investee deep-dive: 'Poultry feed production in Ghana: listening to customers'*, Impact Programme Deep Dive, with Lean Data, Acumen, Published in November 2017.
- ✦ *Investee deep-dive: 'Job quality and business performance: evidence from the Bangladesh garment sector.'* In progress, with Professor Christopher Woodruff (University of Oxford); IPA and Impactt Ltd.
- ✦ *Investee deep-dive: 'SME Finance and Growth: evidence from RBL Bank'* In progress, with International Finance Corporation & Market Xcel
- ✦ *Investee deep-dive: 'Affordable Food: evidence from the Zambian food retailing sector.'* In progress, with Dalberg Research
- ✦ *Investee deep dive: 'What is the Link between Connectivity and Jobs?' Evidence from the telecoms sector in Myanmar'* in progress, evaluator to be selected

5. Enhancing the evaluation and learning programme for CDC

As part of the work to embed development impact more deeply across CDC, an enhanced and systematic focus on evaluations and learning is needed to deepen CDC and DFID's knowledge of the best ways to support long-term positive change through development finance.

Independence will remain at the core of the evaluations programme delivery through: developing a robust governance structure for the commissioning and management of evaluations, ensuring editorial control remains in the hands of independent experts, and supporting independent peer review of evaluation outputs. Further to this, the evaluations programme will also champion research transparency, the engagement of local experts (with a view to support the development of local talent in the research community), and the highest possible ethical standards in design and delivery.

6. Structure for the evaluation and learning programme

The enhanced evaluation and learning programme and research questions will be guided by a theory based approach that tests the assumptions underlying CDCs Theory of Change.

CDC's large and diverse portfolio of investments (across sectors, geographies and instruments) presents a significant challenge to drawing conclusions of the impact of the portfolio in its entirety. Given this, it is proposed that the evaluation and learning programme will be segmented into a smaller number of manageable strands, which – taken together – will offer broad coverage across the theory of change and sectoral strategies of CDC investments. It is proposed that these strands are:

1. At least 10 deep dives specific to individual investments: building on CDCs existing evaluation pipeline.
2. 4-7 large multi-year sectoral studies focused on CDC's broader development impact above and beyond the impacts being tracked for individual investments.
3. Investee data monitoring
4. Jobs Measurement
5. Thematic Seminars
6. A longitudinal evaluation on CDC's impact on mobilisation and investor perceptions²,
7. A detailed review of the implementation of the 2017-2021 strategy³.

Additional studies may be added in the future. Each of these elements is discussed further, below.

6.1 Investee deep dives

In-depth studies on CDC investees, drawing on surveys of customers, employees, suppliers and host communities, can provide considerable insight about the development impact of CDC's investments and generate useful learnings about innovative business models and strategies. In the examples outlined in the previous section, researchers surveyed 180 SME customers of an Indian bank, 100 businesses and 262 households in Uganda, 200 textile workers in Bangladesh, 400 households in Zambia, and 1,300 customers in Zambia. Such surveys can also become baselines for any longitudinal tracer studies that may be included within the planned sectoral studies.

² This study has already been commissioned by DFID.

³ This review has been included for completeness, but will not fall under the management and governance process detailed on page 9. The development of the TOR, contracting and reporting for this review will be solely managed by DFID.

These deep dives will continue as part of the enhanced evaluations programme with the flexibility to follow on from current studies, or design new studies which respond to important questions for DFID and CDC. There will be an increased emphasis on ensuring that these studies generate lessons with broader thematic relevance for a wider audience beyond individual investees; some of these deep dives may feed into the planned sectoral studies outlined below. These deep dives will be designed and managed by CDC.

6.2 Sectoral studies

Multi-year sectoral studies will be commissioned across CDC's five priority sectors. These will be substantive efforts each requiring a mix of evaluation methods such as tracer studies, value-chain analyses, thematic insight synthesis, macroeconomic modelling and potentially more experimental techniques, and will typically be structured as a cluster of related studies rather than a single study. These sector studies will produce a number of outputs that allow DFID and CDC to better understand development impact across all CDC's priority sectors, innovative strategies and critical cross-cutting themes (outlined in Figure 3).

1. These sectoral studies will cover:
2. Financial Institutions
3. Infrastructure
4. Food & Agriculture
5. Consumer Businesses (including Healthcare and Education)
6. Industrial businesses

Emerging findings from these sectoral studies will be used to update and inform CDC sectoral strategies. Cross-cutting themes (e.g. gender, climate change, job quality) will be tackled by many or most sectoral studies; with regular impact seminars to identify learnings across sectoral studies and across different evaluators.

6.3 Figure 3: Potential Focus Areas for Evaluation by DFID and CDC



← Consistent with CDC's Strategic Framework 2017-21, the findings of the CDC Evaluability Assessment (2017), the NAO review of the implementation of CDC's strategy (2016) →

*Longitudinal study on mobilisation already commissioned

Potential research questions to test the routes to impact / theory of change and assumptions are illustrated in Box 2, below. Such questions would be refined and developed as individual sector studies are designed. The design and management of these studies will be undertaken jointly between CDC and DFID.

Box 2: Illustrative questions to test CDCs route to impact/theory of change

What are the impacts of CDCs investments at the investee level?

- What were CDC investments used for?
- How have CDC investments affected investee company growth, output, employment, wages and job quality?
- What leadership and operational constraints has CDC support helped investees overcome?
- How long was the impact sustained and how much of the impact can be attributed to CDC?

What are the impacts of CDC investments at a sectoral level?

- Has sector value added increased and how has that been distributed between returns to capital, profit and wages?
- How are CDC investee company expenditures distributed between wages, local goods and services, imported goods and services and returns to capital? What does this indicate about the likely impact of jobs in the supply chain?
- How is investee company value added distributed between re-investment, corporate saving, and distributed profits? What does this indicate about the likely impact on in-country consumption and any induced employment?
- Has sector employment increased, both overall and for women and young people?
- Has that been reflected in higher wages? Better job conditions? For poor people in particular?
- Have sector standards in environmental and social management and governance improved and what has been CDC's contribution
- How much of these changes can be attributed to CDC investees? To CDC's investment?

What are the impacts of CDC investments on poor people?

- How have poor and vulnerable groups benefitted from the goods and services produced by CDC investee companies?
- Are services more accessible to poor people as a result of CDC investees and CDC investment?
- Have the outputs of CDC investees been targeted to the poor, or been important elements in poor people's consumption budgets or livelihoods?

6.4 Investee data monitoring

As previously detailed (see Box 1), CDC has committed to defining a development impact thesis for each individual investment, and tracking progress against these theses at the investment, sector / theme and portfolio level (outlined in Figure 2). These metrics will be supplemented by conducting exit reviews of all direct investments and funds at the end of the investment (or fund dissolution).

6.5 Jobs measurement

Over the next 2 years, DFID (through the Jobs Measurement and Implementation Support (JMIS) Programme), CDC (through its ongoing research programme), and other partners, will work together to enhance current job measurement methodologies, with the goal of producing a series of open-access, online tools enabling job creation estimates for infrastructure, financial services and real economy investments. Reinforced by findings from sectoral studies (e.g. tracer studies of individual investments), this work will be used to refine CDC's jobs reporting to ensure credibility, consistency and accessibility.

6.6 Thematic seminars

Regular impact seminars will be held to identify learnings emerging from across the sectoral studies. These learnings will then be widely shared and debated within the development finance and impact investing

community. It is expected that thematic seminars will include: job quality, women's economic empowerment, climate changes, skills and leadership, and affordability, amongst others.

6.7 Longitudinal evaluation on mobilising of private sector capital

DFID has recently contracted a supplier to undertake a longitudinal study on the extent to which CDC crowds in private sector investors. The study will test CDC's theory of change and collect evidence over a 10-year period with a mix of methods (panel surveys, interviews, case studies and econometric analysis) to answer the following two questions:

- a. To what extent has CDC successfully mobilised private sector investment at the co-investment and follow-on stages?
- b. What, if any, have been the systemic impacts of CDC on the private sector investment market?

The study will collect new data to better understand how CDC has effected changes in investor perceptions and behaviours over time. It will also help to enrich DFID's understanding of collective DFI impacts. It will produce and disseminate evidence and deliver policy relevant recommendations about what works when it comes to mobilising private sector investment in the most challenging markets.

6.8 Review of the implementation of CDCs 2017-2021 strategy

DFID will commission an external assessment of CDC's strategy in 2020 to inform any adjustments and changes for the future. The assessment will evaluate results and learn lessons across all aspects of the current strategy. In particular, it will look at the emerging findings from the scaling of CDCs innovative strategies that accept a higher risk to open up unproven markets and unlock greater development impact. Amongst other sources, this report will draw from the early findings of the investee deep dives, the sectoral evaluations and the mobilisation study detailed above.

7. Management and Governance

The management and governance of the evaluation and learning programme needs to guarantee the active participation of the private sector actors relevant to each evaluation, as well as the quality of the procurement and study methodology adopted and executed, so that the results are robust, credible and relevant. This requires an appropriate combination of hands-on implementation by CDC and DFID, coupled with independent expert advice and oversight.

There are four important functions:

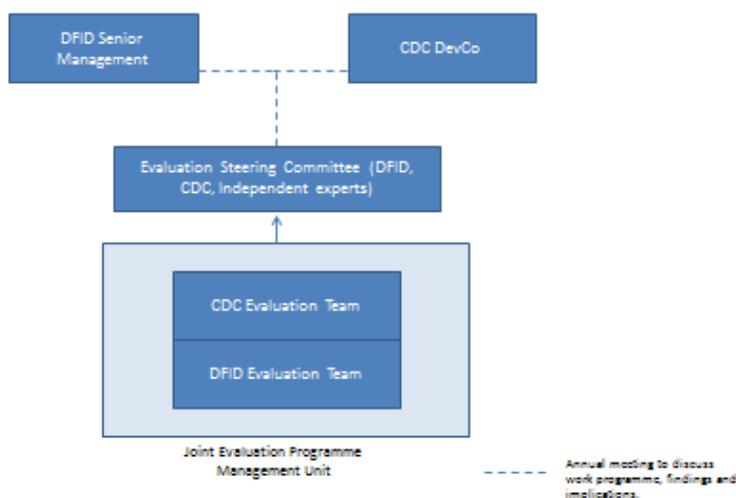
- 1.** Managing the relationship with CDC investees: recruitment, confidentiality, sharing learnings
- 2.** Coordinating the evaluation pipeline, refining questions, writing terms of reference, running procurement, managing the consultants and budget
- 3.** Ensuring the evaluations meet the highest technical standards and provide rigorous results
- 4.** Drawing lessons from evaluation activities and ensuring these have a clear feedback loop into CDC decision making and DFID oversight, sharing with and learning from the evaluation activities of other DFIs

The evaluations will be overseen by an Evaluations Steering Group comprising CDC, DFID and up to 4 independent experts. These external experts will bring an important 'independent' challenge function to the focus, dissemination and learning from evaluation activities. The role of the Evaluations Steering Group is to guide the evaluations programme and provide expert advice on:

- + The overall evaluation strategy and progress
- + Knowledge gaps and potential areas of focus for evaluations
- + Key lessons emerging from findings and implications for CDC and DFID
- + Dissemination activities
- + Risk management and mitigation

The Steering Group will meet at least quarterly. It will also meet at least annually with CDCs Development Impact Committee (DevCo) and DFID Senior Management (Head of Private Sector Development and others) and present an annual evaluation work programme and budget. This meeting will also be used to highlight progress, key findings, dissemination plans and implications from evaluations as they emerge.

7.1 Figure 4 – Governance structure



A Programme Management Team (PMT) will be established.⁴ This will be resourced by both CDC and DFID. Close working between CDC and DFID will be required to manage the numerous evaluation strands, ensuring evaluations are fit for purpose and provide relevant insight for DFID, CDC and (where relevant) investee companies. The PMT will jointly define and agree on the scope for all evaluations and make decisions about appropriate arrangements for procurement, design, and management, and dissemination of evaluations across both organisations and external stakeholders.

Both the Steering Group and the PMT will play complementary roles in ensuring adequate collaboration and consultation with other organisations conducting similar or linked work.

8. Evaluation uses and communication

⁴ Terms of Reference for the PMT and the Steering Group are in development.

This comprehensive and ambitious evaluation and learning programme has the potential to significantly increase DFID's understanding of the long term impacts of capital invested through CDC, and CDC's own understanding of the way its investments create impact. Key will be ensuring that the information and learning produced through the evaluations is widely understood and internalised both within CDC and DFID. This will happen through:

- ✦ Annual meetings between the Evaluations Steering Group, DevCo and DfID Senior Management (Head of PSD and/or Director of EcDev and other DFID Departments as appropriate⁵)
- ✦ Discussions of evaluation findings at CDC/DFID Shareholder Meetings (through periodic evaluation 'deep dives')
- ✦ Regular thematic and/or sectoral seminars for CDC and DFID staff highlighting key findings and implications for programming/investment decisions

Other stakeholders will also have a keen interest in the findings of this evaluation programme. There is a growing international community with a stake in the way investment capital works in developing countries.

Key stakeholders include:

- ✦ Developing country governments
- ✦ Multilateral development banks
- ✦ Bilateral aid agencies
- ✦ Development Finance Institutions
- ✦ Institutional investors
- ✦ Impact investors and social entrepreneurs
- ✦ Investment fund managers specialising in emerging and frontier markets
- ✦ Large and small international NGOs/civil society

Information on the findings of the evaluations will be disseminated through production of findings in peer reviewed journals; presentations and working sessions with external stakeholders; or themed conferences with DFIs or IFIs and others. Detailed stakeholder engagement and dissemination plans will be developed for all evaluations. This will include ensuring the evaluations and studies draw from existing evidence available from key stakeholders.

Where challenges exist with the communication of evaluation findings to wider stakeholders (through commercial sensitivities or general data protection requirements), DFID and CDC will endeavour to share outputs that are appropriately anonymised (where possible) and / or provide a balanced summary of independent findings.

⁵ Opportunities will be maximised for cross-DFID learning, bringing in relevant Heads and staff from Research and Evidence Department; Growth and Resilience Departments, Regional Departments, International Financial Institutions Department and others as appropriate.

9. Timeline

The provisional timeline for this evaluation programme is outlined below. A final evaluation programme will be submitted to the Evaluation Steering Group annually.

9.1 Table 1: Evaluation and Learning Programme Activities

	2018	2019	2020	2021	2022	2023
Investee deep dives	2 x deep dives	2 x deep dives	2 x deep dives	2 x deep dives	1 x deep dive	1 x deep dive
Sectoral studies (FI, Infrastructure, F & A, Consumer, Industrials)	Continuous outputs / synthesis products from each sectoral study			2 x sector summary report	2 x sector summary report	1 x sector summary report End of programme review
Longitudinal study on mobilisation	Inception report Synthesis product x 1	Summary report		Summary report		Summary report
Review of 2017-2021 strategy implementation			Strategy review			
Investee monitoring	Design data framework and gather data Year-end QA	Gather monitoring data Year-end QA	Gather monitoring data Year-end QA	Gather monitoring data Year-end QA	Gather monitoring data Year-end QA	Gather monitoring data Year-end QA
Jobs measurement	3-year review	Work to upgrade model (with other DFIs)	Work to upgrade model (with other DFIs)	New model	New model	New model
Thematic seminars (gender, climate change, job quality, affordability, etc)		2 x thematic seminars	2 x thematic seminars	2 x thematic seminars	2 x thematic seminars	1 x thematic seminar

10. Conclusion

The evaluation programme plan outlined above will provide DFID, CDC and stakeholders with a much stronger understanding of a) CDC's contribution to an overall increase in capital investment in a given company, sector and country; b) how much growth in output and employment can be attributed to that increase in investment; and c) what is the broader impact on poor people's lives of CDC's activities.



CDC Group plc
123 Victoria Street
London SW1E 6DE
United Kingdom
+44 (0)20 7963 4700