



Foreign, Commonwealth
& Development Office

CDC
Investment works

FCDO-CDC Evaluation and Learning Programme 2017-23



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1. Background

In October 2017, DFID (now FCDO) 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 FCDO 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?

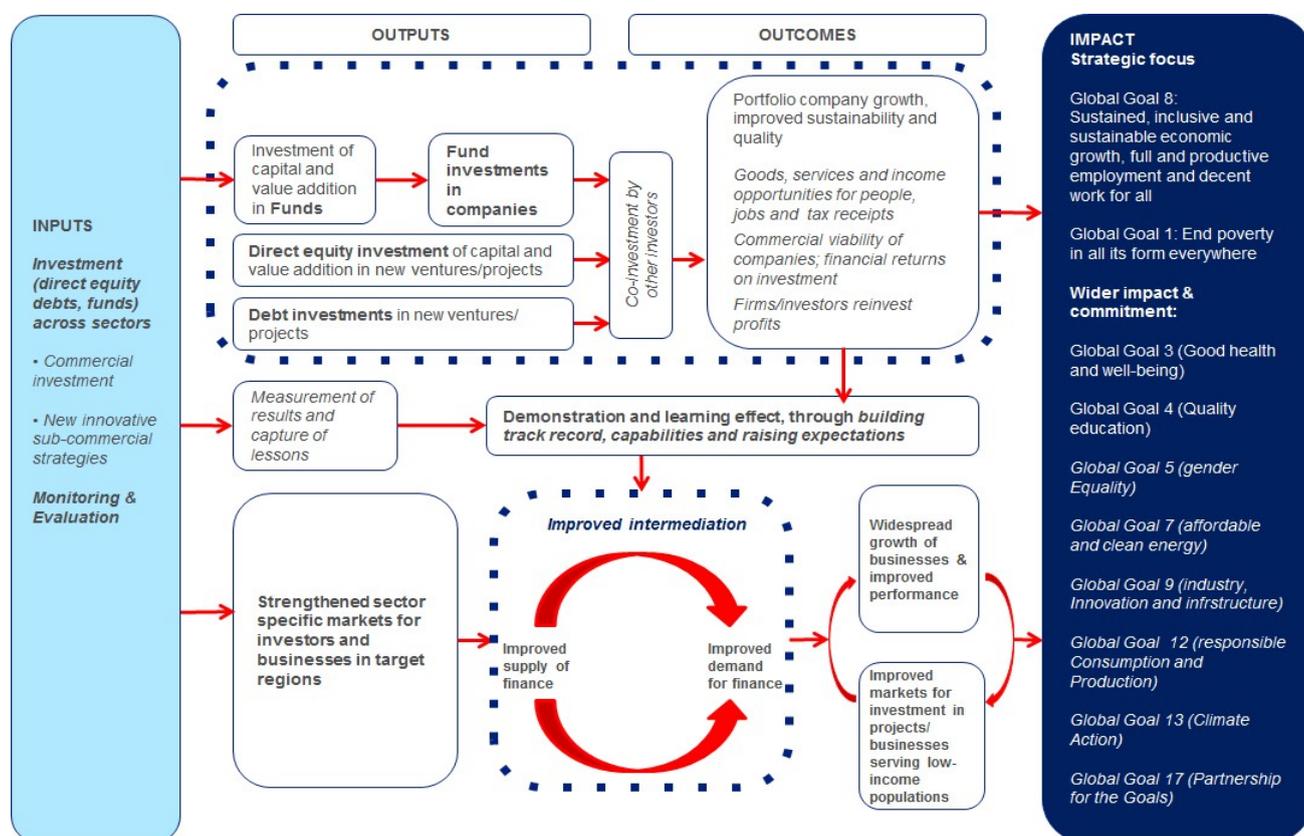
Ongoing monitoring and regular, longer-term evaluations of CDCs impact are critical to help FCDO and CDC better understand how, and in what contexts, CDC's investments deliver tangible, sustainable development impact on people, businesses, sectors and overall economies. This information is crucial to 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, as defined in 2017, is set out below in Figure 1, which summarises the four stages from input to impact – illustrating how FCDO, 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. infrastructure – 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: FCDO Investment Capital Theory of Change

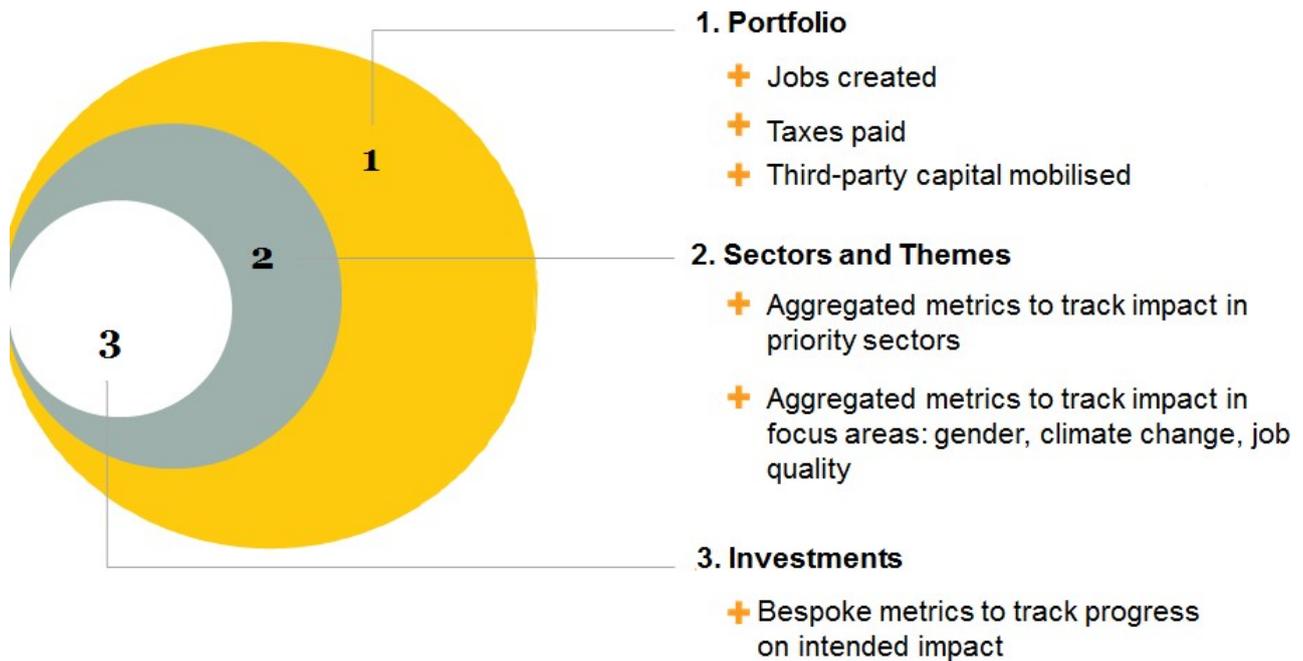


Monitoring data, case studies and shorter-term evaluations and studies from CDC and other DFIs identify that investments made are having positive development impacts. However, differing definitions of development impact, the wide range of indicators used across organisations, the challenges and cost 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 sector 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 CDC's 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.

Box 1: CDC's Enhanced Investee Data Monitoring

CDC committed to:

- Defining a development impact thesis for each individual investment that represents a clear statement of why CDC is making a particular investment, and from 2019 to publishing a dashboard articulating this thesis against the relevant SDGs and using the Impact Management Project's dimensions of impact
- Calculating a development impact grid score for each investment which reflects an 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 evaluations and evidence reviews, and exit reviews at the end of the investment.

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

Beyond regular monitoring, CDC commissioned a number of independent evaluations and evidence reviews to fill critical evidence gaps in specific sectors and on key topics. These studies were approved by, and progress against them reported to, the Development Impact Committee of the CDC Board (DevCo). Studies include:

- ✦ *'The Impact of Funds: An Evaluation of CDC 2004-12'* by Professor Josh Lerner et al. (Harvard Business School); 2015.
- ✦ *'What is the Link Between Power and Jobs in Uganda?'* by Steward Redqueen; 2016.
- ✦ *'Evaluating the Impact of Private Providers on Health and Health Systems'* by the Institute for Global Health Innovation, Imperial College London; 2017.

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 was launched in late 2017 to deepen CDC and FCDO's knowledge of the best ways to support long-term positive change through development finance.

Learning is at the core of the evaluation and learning programme's delivery through: a robust governance structure for the commissioning and management of evaluations, engaging the right people with the right expertise to help CDC learn, and supporting peer review of evaluation outputs (as appropriate). Further to this, the 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 is guided by a theory-based approach that tests the assumptions underlying CDC's impact frameworks.

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, the evaluation and learning programme is segmented into a number of manageable strands, which – taken together – offer broad coverage across the theory of change and sector strategies of CDC investments.

These strands are:

1. *Insights*, building on the existing commissioned evaluations and evidence reviews.
2. Large multi-year sector studies covering CDC's three priority sectors: Financial Services, Infrastructure and climate; and 'SMART Industries' (services, manufacturing, agriculture, real estate and technology), focused on CDC's broader development impact above and beyond the impacts being tracked for individual investments.
3. Investee impact monitoring
4. Internal learning activities at CDC and FCDO
5. A longitudinal evaluation on CDC's impact on mobilisation and investor perceptions²,
6. 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.

² This study has already been commissioned by FCDO.

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 FCDO.

6.1 Insights

In-depth studies on CDC investees, and evidence reviews across different sectors and sub-sectors, both provide insights into the actual or likely development impact of CDC's investments and generate useful learnings about innovative business models and strategies. The studies are contracted, managed and published by CDC. The pace of these studies has accelerated significantly, with the following published since 2018:

- ✦ *'SME Finance and Growth: Evidence from RBL Bank'*, with International Finance Corporation & Market Xcel; 2018.
- ✦ *'Affordability of Protein-Rich Foods: Evidence from Zambia'*, with Southern African Institute for Policy and Research; 2018.
- ✦ *'What is the Impact of Investing in Financial Systems?'* Timothy Ogden, NYU-Wagner, 2019
- ✦ *'What is the Impact of Investing in Connectivity?'* Dr Pantelis Koutroumpis, Oxford Martin School, University of Oxford, 2019.
- ✦ *'How does an Online Supermarket in India Impact Farmers?'* Sattva Consulting, 2019.
- ✦ *'What is the Impact of Investing in Power?'* Anton Eberhard and Gabrielle Dyson, Power Futures Lab, University of Cape Town, 2020.
- ✦ *'Understanding the Impact of Solar Home Systems in Nigeria'*, 60_decibels, 2020.
- ✦ *'What's the Impact of Online Higher Education in Africa?'* with Open Capital Advisors, 2020.
- ✦ *'What is the Impact of Improved Access to Finance for Healthcare Facilities in Kenya?'* with Dalberg, 2020.
- ✦ *'What's the Impact of Modern Rice Farming in Nigeria?'* with 60 Decibels, 2020.
- ✦ *'What is the Impact of Fibre Connectivity in the Democratic Republic of the Congo?'* with Fraym and Jonas Hjort at Colombia University, 2020.
- ✦ *'Investing for impact in the food and agriculture sector in Africa and South Asia'* with Wageningen University, 2020

We intend to publish half a dozen additional evidence reviews and portfolio learnings in 2021, with a focus on investigating critical questions asked during investment committee meetings and regular portfolio reviews. Some of these studies can also provide baselines for any longitudinal studies that may be included within the planned sector studies.

6.2 Sector studies

Multi-year sector studies will be commissioned across CDC's 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 FCDO and CDC to better understand development impact across all CDC's priority sectors and critical cross-cutting themes.

These sector studies will cover:

1. Financial Services (Phase 2 in progress)
2. Infrastructure and climate (Phase 1 in progress)
3. SMART Industries (commencing Q1 2021)

Emerging findings from these sector studies will be used to update and inform CDC sector and sub-sector strategies. Cross-cutting themes (e.g. gender, climate change, job quality) will also be tackled in the sector studies; with regular impact seminars to identify learnings across sector studies and across different evaluations.

6.3 Impact Research Challenge Fund

FCDO and CDC have partnered with the Centre for Economic Policy Research (CEPR) to run a financing window in the PEDL programme to support new research that fills critical evidence gaps related to the work of CDC and the impacts of private sector investment in developing countries. The calls for research focus on research questions where the current evidence base is weak and where insights are needed on what works, what doesn't, and why. It has the same overarching goal as the sector studies of crowding in useful evaluations and learning for CDC, FCDO and beyond, but will focus specifically on areas where the evidence base is weak, and on locating researchers that are in a position to generate strong evidence of a quality leading to journal publication. The first research calls were launched in 2020, beginning with a PEDL COVID special edition call, followed by calls for exploratory and then major research grants.

6.4 Impact monitoring

As previously detailed (see Box 1), CDC 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). The focus in 2019 and 2020 has been to harmonise metrics as closely as possible with metrics used by other development finance institutions. These metrics are supplemented by exit reviews of all direct investments and funds at the end of the investment (or fund dissolution). CDC also published a handbook on the principal impact measurement techniques in 2019.

Given the importance of indirect impacts in CDC's impact frameworks, another focus of work in the programme in 2018-20 has been on building capacity to undertake consistent estimates of indirect gross value added and employment impacts arising from investments. Working with FCDO and with other development finance institutions, this led to the development of the Joint Impact Model (JIM), launched in 2020. In 2021-23 the model will be trialled and developed.

6.6 Internal learning

Regular impact learning events will be held to share learnings emerging from the studies. Typically, learnings are shared with the relevant investment teams, and then more broadly across CDC, up to the Executive Committee, to Investment Committee members, to the DevCo of the Board, and then to FCDO and to the broader development finance and impact investing community.

6.7 Longitudinal evaluation on mobilising of private sector capital

FCDO contracted a supplier to undertake a longitudinal study on the extent to which CDC crowds in private sector investors. The study is testing CDC's theory of change and collecting 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 FCDO'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

FCDO also commissioned an independent assessment of CDC's strategy in 2020 to inform any adjustments and changes for the future. The assessment reviewed results and lessons learned across all aspects of the current strategy. In particular, it looked 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 drew from the early findings of the *Insights*, the sector studies and the mobilisation study detailed above.

Over the period, CDC also expects to engage with additional external scrutiny, from the Independent Commission on Aid Impact and others.

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 FCDO, 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 FCDO oversight, sharing with and learning from the evaluation activities of other DFIs

To this end, the evaluations are overseen by an Evaluations Steering Group comprising CDC, FCDO and four independent experts.

As at January 2021, the Steering Group is comprised as follows:

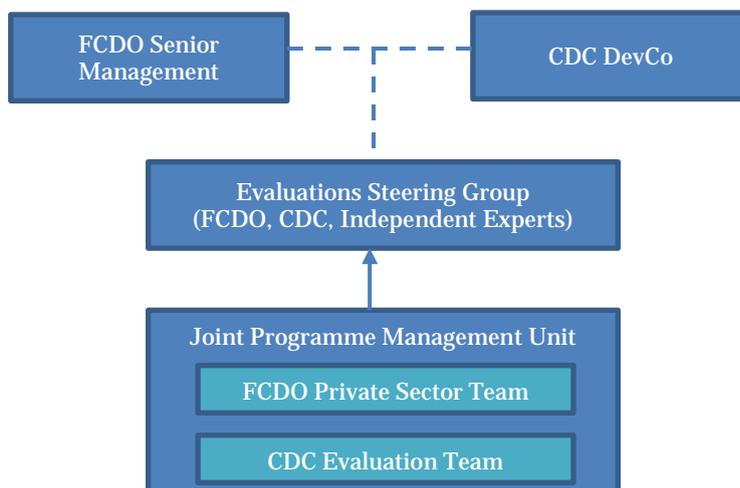
1. **Rachel Glennerster** (Chair) is the Chief Economist of FCDO
2. **Marie Gaarder** is 3ie's Director of the Evaluation Office and Global Director for Innovation and Country Engagement
3. **Greg Fischer** is Chief Economist at Y Analytics and a Visiting Professor of Practice in the School of Public Policy at London School of Economics
4. **Stephen Peel** is founder SMP Policy Innovation Limited, a non-for-profit organisation aiming to promote, design and assist advanced government policy, after a 25-year career in the global private equity industry
5. **Vijaya Ramachandran** is a Senior Fellow at the Center for Global Development
6. **Liz Lloyd** is the Chief Impact Officer at CDC
7. **Alex MacGillivray** is the Director of Development Impact – Evaluations at CDC
8. **Liz Patterson** is the Development Finance Institutions Team Leader within the Private Sector Department Adviser at FCDO

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 FCDO
- ✦ Dissemination activities
- ✦ Risk management and mitigation

The Steering Group meets at least annually and recommends an annual work programme to CDCs Development Impact Committee (DevCo) and FCDO Senior Management (Head of Private Sector Development and others).

7.1 *Figure 3 – Governance structure*



A Programme Management Unit (PMU) has been established⁴. This is resourced by both CDC and FCDO. Close working between CDC and FCDO is required to manage the numerous evaluation strands, ensuring evaluations are fit for purpose and provide relevant insight for FCDO, CDC and (where relevant) investee companies. The PMU 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 PMU play complementary roles in ensuring adequate collaboration and consultation with other organisations conducting similar or linked work.

8. Evaluation uses and communication

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

- ✦ Meetings between the Evaluations Steering Group, DevCo and FCDO Senior Management (Head of PSD and/or Director of EcDev and other FCDO Departments as appropriate)
- ✦ Discussions of evaluation findings at CDC/FCDO Shareholder Meetings (through periodic evaluation 'deep dives')
- ✦ Regular thematic and/or sector seminars for CDC and FCDO 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

⁴ There are separate Terms of Reference for the PMU and the Steering Group.

Information on the findings of the evaluations will be widely disseminated through publications; presentations and working sessions with external stakeholders; or conferences with DFIs or IFIs and others. Detailed stakeholder engagement and dissemination plans are developed for the sector studies.

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

9. Timeline

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

9.1 Table 1: Evaluation and Learning Programme Activities

	2018	2019	2020	2021	2022	2023
Insights	2 x Insights	4 x Insights	6 x Insights	4-6 x Insights	2 x Insights	2 x Insights
Sector studies			Financial Services Portfolio Evaluation	Infrastructure and Climate Portfolio Evaluation SMART Industries Portfolio Evaluation	In-depth Studies as necessary Financial Services Final Evaluation Report	In-depth Studies as necessary Infrastructure and Climate, and SMART Industries Final Evaluation Reports
Longitudinal study on mobilisation	Inception report Synthesis product x 1	Summary report		Summary report		Summary report
Review of 2017-2021 strategy implementation			Strategy review			
Impact monitoring	Design data framework and gather data Year-end QA	Gather monitoring data Year-end QA	Gather monitoring data Year-end QA Launch Joint Impact Model	Gather monitoring data Year-end QA Refine JIM	Gather monitoring data Year-end QA	Gather monitoring data Year-end QA
Internal learning seminars			Financial Services Portfolio Evaluation Seminar	Infrastructure and Climate, and SMART Industries Portfolio Evaluation Seminars	Financial Services Final Report Seminar	Infrastructure and Climate, and SMART Industries Final Report Seminars

10. Conclusion

The evaluation programme plan described here is providing FCDO, CDC and stakeholders with a 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.



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