Independent Commission for Aid Impact

ICAI follow-up: CDC's investments in low-income and fragile states

A summary

July 2020

The Independent Commission for Aid Impact works to improve the quality of UK development assistance through robust, independent scrutiny. We provide assurance to the UK taxpayer by conducting independent reviews of the effectiveness and value for money of UK aid.

We operate independently of government, reporting to Parliament, and our mandate covers all UK official development assistance.

Individual review scores and what they mean

An adequate score means:
- Enough progress has been made in the right areas and in a sufficiently timely manner in order to address the core concerns underpinning ICAI's recommendations.

An inadequate score results from one or more of the following three factors:
- Too little has been done to address ICAI's recommendations in core areas of concern (the response is inadequate in scope).
- Actions have been taken, but they do not cover the main concerns we had when we made the recommendations (the response is insufficiently relevant).
- Actions may be relevant, but implementation has been too slow and we are not able to judge their effectiveness (the response is insufficiently implemented).

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Executive summary

ICAI's follow-up review is an important element in the scrutiny process for UK aid. It provides parliament and the public with an account of how well the government has responded to ICAI's recommendations to improve spending. It is also an opportunity for ICAI to identify issues and challenges facing the UK aid programme now and in the future, which in turn helps to inform subsequent reviews. This year, for the first time, we introduced a scoring element to the follow-up exercises. For each of the reviews we follow up, we provide a score of adequate or inadequate, illustrated by a tick or a cross.

This document is a summary focused only on the results of the follow-up of our review of CDC's investments in low-income and fragile states. The full follow-up report of all our 2018-19 reviews, including overall conclusions from the process and details of our methodology and scoring, can be found on our website.

Findings

CDC's investments in low-income and fragile states

CDC has made notable progress in strengthening its tools to assess development impact, but it is not yet clear how these tools are shaping investment decisions and management. CDC has completed all its value creation strategies, but in most cases there has been limited action to implement them. CDC has deepened its collaboration with the Department for International Development (DFID). However, its country expansion efforts – based on plans agreed with DFID – remain unambitious, posing challenges for investment sourcing, oversight and securing development impact. CDC has expanded communications on its Catalyst Portfolio but made limited progress on communicating the rationale behind its investment approach for the Growth Portfolio.

Published in March 2019, ICAI's performance review on CDC's investments in low-income and fragile states, covering the period 2012-2018, gave an amber-red score to CDC. It concluded that CDC had made progress in redirecting investments to low-income and fragile states, but had been slow in building in-country capacity to support a more developmental approach. It noted that CDC had not done enough to ensure or monitor development results, to progress plans to improve evaluation and apply learning, and to communicate how it works to balance the pursuit of financial and development outcomes. The review made six recommendations.

Table 1: ICAI's recommendations and the government response

Subject of recommendation	Government response
CDC should incorporate a broader range of development impact criteria and indicators into its assessment of investment opportunities, and ensure these are systematically considered in the selection process.	Accepted
CDC should take a more active role in the management of its investments, using the various channels available to it to promote development impact during their lifetime.	Accepted
CDC should strengthen the monitoring and evaluation of the development impact of its investments and the learning from this, working with DFID to accelerate their joint evaluation and learning programme.	Accepted

CDC should work more closely and systematically with DFID and other development partners to inform its geographic and sectoral priorities, and build synergies with other UK aid programmes to optimise the value of official development assistance.	Accepted
In the presentation of its strategy and reporting to stakeholders, CDC should communicate better its approach to balancing financial risk with development impact opportunity, and the justification for its different investment strategies.	Accepted
DFID's business cases for future capital commitments to CDC should be based on stronger evidence of achieved development impact and clear progress on expanding their in-country presence.	Accepted

Recommendation 1: Broaden the range of development impact criteria and indicators, and systematically include these in investment decisions

The government accepted ICAI's recommendation to ensure that CDC uses a broader range of development impact criteria and indicators to assess and make decisions on investment opportunities for its Growth Portfolio.

Since ICAI's original review, CDC has made significant progress in developing its tools for assessing the potential development impact of its investments. It has introduced a new impact framework, which articulates the development impact that CDC seeks to achieve across its operations, based on the internationally respected approach of the Impact Management Project. New impact dashboards are used to articulate how each investment is expected to contribute towards the impact framework's goals, also drawing on CDC's new sector impact frameworks and the sustainable development goals (SDGs). Impact dashboards have been produced for all new investments since September 2019.

We saw signs that these impact dashboards help structure the thinking of deal teams to focus on development impact during the process of preparing potential investments. CDC shared with us two examples of investments being rejected partly due to weak development impact cases, but we were not able to assess if these examples are indicative of a broader change in approach. We will return next year to how effective these impact dashboards are in promoting a stronger emphasis on impact throughout the organisation.

CDC told us that since the ICAI review it has recruited sector leads, whose role will include advising deal and product teams on revising their investment priorities in each sector and providing support in assessing development impact.

Recommendation 2: More active investment management to promote development impact

The government accepted ICAI's recommendation that CDC should manage investments more actively to support deeper development impact. CDC reported that it has been working to expand the focus of Quarterly Portfolio Reviews (QPRs) to include reviewing the development impact of investments. Development impact staff now join the QPRs. We reviewed examples of QPRs over the last year and noted some clear cases where investment progress was determined by the strength of the development impact case, or where further work on this was required. However, these examples only related to a small number of investments reviewed through QPRs over this period, and there was no reference to the impact dashboards, suggesting these tools may not yet be fully assimilated into the QPR process. It seems that financial performance continues to be the dominant measure used in QPRs to assess the progress of investments.

Since ICAI's original review, CDC has increased its capacity and efforts to support investees on gender equality, climate change, job quality and skills, driven by its new value creation strategies. CDC shared with us a number of case studies on recent value creation activities. Ambitious interventions have been implemented from the gender equality strategy, published in May 2018. We saw more limited progress in pursuing ambitious engagements on skills and leadership, decent work and climate change, the strategies for which were only approved in November 2019.

Recommendation 3: Strengthen the monitoring, evaluation and learning process

The government accepted ICAI's recommendation that CDC should strengthen monitoring, evaluation and learning (MEL) in relation to the development impact of its investments. ICAI had concluded that CDC's monitoring and evaluation (M&E) was variable across the organisation, its new M&E programme (implemented with DFID) had been slow to commence, and its approaches for linking new learning to investments – especially in difficult markets – could be developed further.

ICAI's review is reported to have had a significant impact on prioritising learning and dissemination, both inside and outside the organisation. CDC has now published eight 'deep dive' studies in this strategy period and is on schedule to meet its commitment to complete at least 20 such studies by the end of 2021. Since ICAI's original review, CDC has also produced three Insight Reports – on healthcare, SME finance and affordable food – presenting impact-related research, up-to-date evidence reviews, and learnings from CDC portfolio companies.

However, none of the joint CDC-DFID formal evaluations of CDC's investments have yet been published. The organisation is making progress on establishing new mechanisms for M&E, but we are yet to see how these will be applied and the extent to which M&E will feed into learning.

We found evidence that the agenda for sharing learning has become more strategic and structured, although CDC's rapid organisational expansion poses challenges for promoting informal learning. Internal learning is focused on providing the platforms and processes for staff to share their learning from their day-to-day work.

Recommendation 4: Engage more closely with and complement the work of DFID and other development partners

ICAI recommended that CDC work more closely and systematically with DFID and other development partners to inform its geographic and sectoral priorities, so as to build synergies that improve the value of official development assistance (ODA). ICAI concluded that CDC could pursue this through developing clearer country plans and priorities and improving collaboration with DFID in country. The government accepted this recommendation.

Since ICAI's original review, CDC has been engaging more closely with DFID on key sectors. Progress is illustrated by the close engagement between CDC and DFID in developing six sector strategies and accompanying implementation plans, which (among other things) identify the DFID programmes that CDC can collaborate with (and vice versa). A number of practical collaborations have emerged from efforts to begin implementing these strategies. There is also evidence of initial steps by CDC to engage more systematically with DFID country offices, including through its nascent network of country offices.

Recommendation 5: Improve communication of CDC's approach to balancing financial returns and development impact

The government accepted ICAI's recommendation that CDC should better communicate its approach to balancing financial returns and development impact across its different investment portfolios. Over the past year, CDC has significantly increased its internal and external communication of its Catalyst Strategies (introduced in 2017), as well as its plans to scale up investment activity and share early learnings with development partners. The communications outline how CDC balances financial risks and development impact and how its financial return hurdle and actual return profile have changed. However, these communications have largely been focused on the Catalyst Portfolio, just 6% of CDC's investments in 2019. CDC has made more limited progress on communicating the rationale behind its investment approach for the Growth Portfolio. This accounted for 94% of investments in 2019, but communication about how investments are selected and how it balances financial return with development impact across its two portfolios remains weak.

Recommendation 6: Ensure future funding is based on evidence of CDC's impact and progress on expanding its country presence

The government accepted ICAI's recommendation that future funding for CDC should be based on stronger evidence of CDC's development impact and progress in expanding its country presence. ICAI's original review highlighted that the existing DFID business case for CDC funding did not propose any conditions or targets in relation to development outcomes. It also identified concerns about the slow pace of CDC's efforts to expand its country presence (outside India).

Although it is too soon to assess the basis on which DFID commits future funding to CDC, DFID highlighted that the increased focus on learning and evaluation, as well as its upcoming strategic review of CDC (during 2020-21), will provide stronger evidence to underpin any future business case.

We note that, while some progress has been made in increasing CDC's country presence since the ICAI review, this remains slow and unambitious. External factors, such as the January 2019 terrorist attack in Nairobi, have influenced this, and CDC is broadly on track to deliver the plans to expand country presence agreed with DFID. However, these plans are not of sufficient scope. We remain concerned that DFID has not pushed for a greater country presence for CDC in order to help it to strengthen investment oversight and deepen its development ambitions in low-income and fragile states.

Conclusion

ICAI's original review proposed a significant and challenging set of recommendations for CDC to address in order to live up to its 2017 investment strategy, which set out a more strongly development-oriented direction for the organisation. CDC has made some notable progress in building the foundations and initiating efforts for realising this strategic approach, including better appraising the impact potential of investments, producing its value creation strategies and beginning their implementation, improving M&E and developing engagement with DFID and others at the country level.

However, although we were shown some examples where further attention to impact cases contributed to investments being rejected, we have not yet seen evidence of CDC's new development impact tools significantly shaping investment decisions and the outcomes of processes such as QPRs. Most of CDC's value creation strategies seem to be at an early stage of implementation. We are yet to see how CDC's new M&E mechanisms will be applied and feed into learning. CDC and DFID's plans for expanding CDC's country presence remain unambitious, despite the urgency of this step for ensuring the effectiveness of investments. CDC has also made limited progress on communicating the rationale behind its investment approach for the Growth Portfolio. Overall, despite valuable progress, the pace and depth of change has not been sufficient in areas responding to our key recommendations. We have therefore scored this follow-up as inadequate and will return to this review as an outstanding issue next year.

ICAI Independent Commission for Aid Impact

This document can be downloaded from www.icai.independent.gov.uk.
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