CDC

Development Impact Evaluation

Summary Report

What was the impact of CDC's fund investments from 2004 to 2012?

November 2015

What's in this report?

Key findings

About CDC's evaluations
CDC regularly commissions and publishes independent evaluations to increase understanding of our development impact and to guide future investments.

About this report
This report has been prepared by CDC to summarise the findings of an independent evaluation carried out by Professor Josh Lerner, Head of the Entrepreneurship Unit at Harvard Business School, and Ann Leamon, Steve Dew and Dong Ik Lee from the Bella Research Group. The full evaluation has been published as a Harvard Business School Working Paper and is available at: http://www.hbs.edu/faculty/Pages/item.aspx?num=49933

Key findings

The evaluation found that CDC's fund investments over the period 2004 to 2012 had the following developmental impacts:

Building businesses and creating jobs: they had a positive impact on four measures of business success – revenues, profits, taxes paid and employment.

Building local capacity: they had a pioneering role in establishing the private equity industry in emerging markets, dedicating capital and expertise to get funds off the ground.

Reaching a broader range of businesses: they enabled a London-based organisation with finite resources to provide capital to a broad range of businesses, particularly those that were difficult to access.

Mobilising capital: they demonstrated that it is possible to invest successfully in challenging environments, and attracted third-party capital to these markets.

What did the evaluation do?

The question

Between 2004 and 2012, CDC pursued development goals by investing solely in private equity funds. These funds invested in businesses in emerging markets, which had the potential to grow but needed capital or expertise to do so.

To understand the full impact of our fund investments over this period, CDC, on behalf of the Department for International Development (DFID), commissioned an independent evaluation.

The approach

The evaluation analysed the extent to which CDC met official key performance indicators over this period – including how much we invested in certain countries relative to national income and geographic targets; and the financial returns CDC achieved relative to an external benchmark for financial performance.

The evaluation also looked in depth at the extent to which CDC achieved a set of development impact goals. To do this, it considered:

– The increase in direct jobs, revenues, profits, and taxes paid by investee businesses

– The number and performance of first-time fund investments as an indicator of local fund managers' increased capacity

– CDC's ability to instil good environmental, social and governance (ESG) practices among fund managers and investee businesses

– The benefits of CDC's fund strategy relative to a direct investment strategy

– CDC's ability to mobilise third-party capital

To carry out its assessment, the evaluation accessed data from CDC's annual reports and other records, in particular data on our fund-level and company-level investments. It also conducted a series of interviews with fund managers and current and former CDC staff.

What were the results?

1. Building businesses and creating jobs

CDC's articulation of our mission varied over the 2004-12 period. However, one general aim remained consistent – to share prosperity broadly in emerging markets through supporting businesses to increase their revenues, profits, taxes paid and employment.

The evaluation therefore examined the impact of CDC's investments on these four measures of business success – revenues, profits, taxes paid and employment.

Building businesses

The evaluation concluded that between 2008 and 2012, CDC's fund managers supported 919 businesses that:

- Increased revenues by US$41.6bn
- Increased profits by US$4.8bn
- Increased taxes paid by US$2.1bn

Fig. 1a
Revenue increase by region

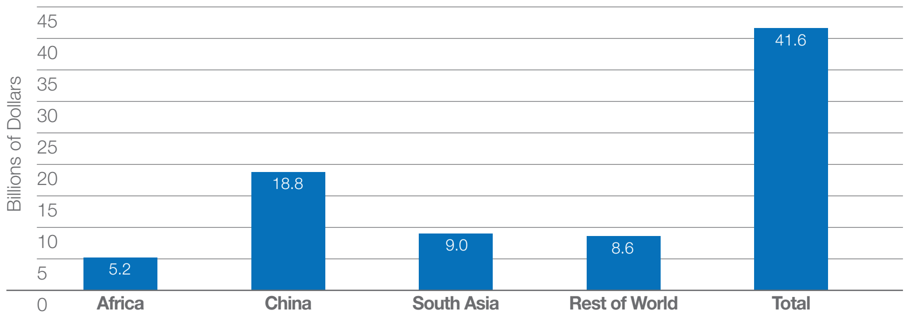


Fig. 1b
EBITDA increase by region

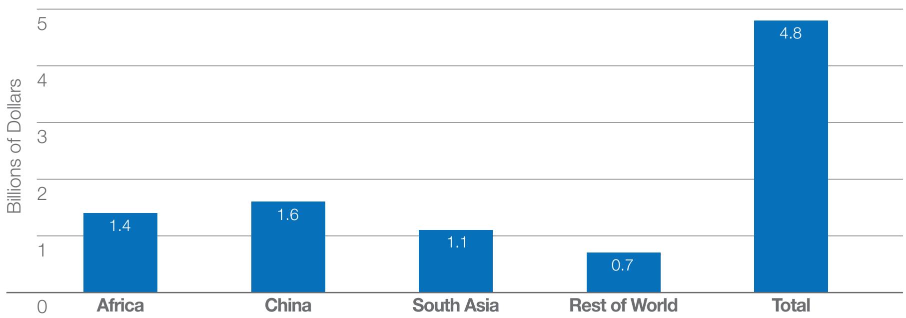
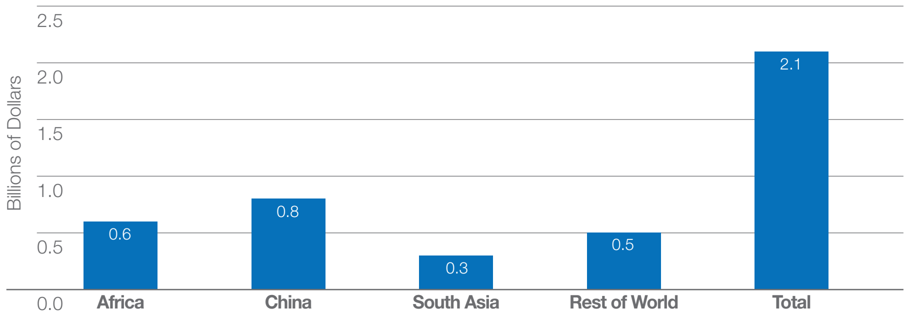


Fig. 1c

Taxes paid increase by region



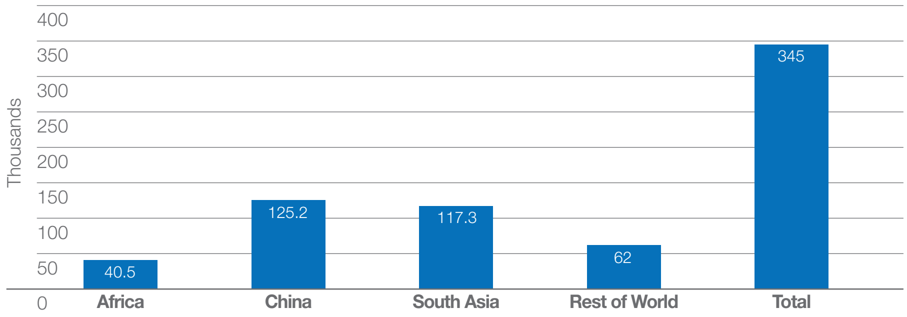
Creating jobs

Following analysis of both fund-level and company-level data, the evaluation concluded that:

- CDC's investee businesses created a minimum of 345,000 direct jobs in emerging markets between 2008 and 2012 (the evaluators were not able to estimate direct job creation from 2004-07 as employment data was not available for this period)
- China and South Asia were the most active job-creating regions, accounting for 36 per cent and 34 per cent of the total respectively
- The regions in which CDC continues to invest today (Africa and South Asia), accounted for 46 per cent of the total

Fig. 2

Direct job creation by region



In 2014, following the period considered by the evaluation, CDC introduced a new methodology that also takes into account the indirect jobs created by investee businesses through the supply chain, spending of wages and provision of power and finance.

2. Building local capacity

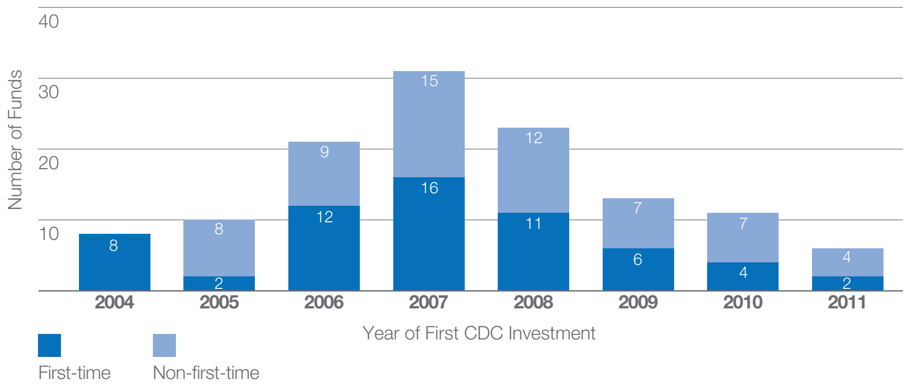
CDC's investment in funds has built the capacity of local fund managers. This has included building their capacity for investment, achieving development impact, and implementing good environmental, social and governance practices.

Building the capacity of first-time fund managers

CDC's strategy proposed that private equity would be pivotal to private sector development in emerging markets. The evaluation found that CDC played a pioneering role in establishing the private equity industry in emerging markets, dedicating both capital and expertise to get funds off the ground.

The evaluation analysed 123 funds in which CDC invested between 2004 and 2012. CDC's commitment to first-time funds is demonstrated by the fact that just over half of these investments backed first-time fund managers.

Fig. 3
First-time and non-first-time fund investments by year

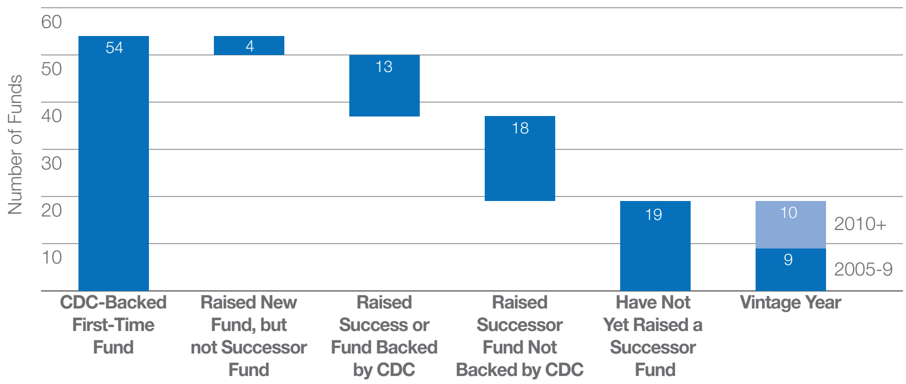


The success of CDC's efforts to build the capacity of local fund managers can also be judged by the number of first-time managers that went on to raise successor funds.

Between 1992 and 2013 – a period that dates from CDC's first fund investment and ends with the last full year of available data – CDC invested in 182 funds, of which 101 (56 per cent) were first-time fund managers, and 54 (30 per cent) were non-Actis or Aureos first-time fund managers. Of these 54 funds, 31 (57 per cent) had gone on to raise successor funds by 2013, and CDC had backed 13 (42 per cent) of these funds.

Fig. 4

Successor funds raised by first-time fund managers



Broader capacity building

Supporting investee businesses to assess and improve environmental, social and governance (ESG) standards is one of CDC's key objectives, and became an increasing priority from the mid-2000s.

The evaluation considered the support provided to our local fund managers to strengthen ESG standards – from the creation of a 'Business Principles Toolkit' and hands-on training in 2007, to improvements in CDC's support to fund managers over the years, including the introduction of an upgraded 'ESG Toolkit' in 2010. It also carried out several interviews with fund managers and current and former CDC staff, and examined four case studies, to understand the impact of CDC's ESG support.

The evaluation concluded that CDC played an important role in imparting good ESG practices to fund managers and investee businesses. From the interviews carried out it found that "*the upgraded ESG Toolkit became a well-regarded resource on which first-time teams based their ESG management systems*." It also concluded that CDC was more able to make meaningful contributions to ESG practices when we became involved with a fund early on.

Following the period considered by the evaluation, further revisions have been made to CDC's ESG support, and in 2015, we launched an updated and online version of the ESG Toolkit.

3. Reaching a broader range of businesses

In 2004, CDC was faced with the challenge of how best to invest to reach a range of businesses. Direct investing enables more direct influence and control over management teams. However, investing through funds could enable a London-based organisation with limited resources to provide capital to a broader range of businesses, particularly those that were difficult to access.

The evaluation compared CDC to other highly regarded emerging market direct investors to test how this theory about reaching a broader range of businesses through fund investing applied between 2004 and 2012.

It concluded that investing in funds enabled CDC to invest in more businesses using fewer employees than we could have done as a direct investor.

Fig 5.

Number of companies invested in per employee

	Comparison group of emerging market direct investors	CDC
2005	0.041	2
2006	0.061	3
2007	0.077	6
2008	0.063	6
2009	0.024	3
2010	0.038	4
2011	0.024	4
2012	0.032	2

It also concluded that our funds strategy enabled CDC to invest in more countries than we could have done as a direct investor.

Fig 6.

Number of countries invested in by year

Year	2004	2005	2006	2007	2008	2009	2010	2011
Countries	6	22	27	40	44	35	37	38

Since 2012, CDC has invested directly in businesses as well as indirectly through funds. Each investment is unique and is considered on a case-by-case basis, taking into account how we can address gaps in the market to best support the creation of jobs and how we can have the most impact with our resources. By combining direct investing with fund investing, CDC now has a range of tools with which to achieve our mission.

4. Mobilising capital

One of CDC's aims is to demonstrate that it is possible to invest successfully in challenging environments, and to attract additional sources of capital, including commercial capital.

In 2009, CDC and DFID agreed the goal of mobilising twice as much third-party capital as we invested, measured on a rolling three-year basis. We recognised that our capital has more impact on mobilising third-party capital in first-time funds than it does in subsequent funds. To address this, CDC and DFID developed a metric that credited CDC with mobilising capital in first-time funds and tapered our role in subsequent funds.

The evaluation drew together CDC's mobilisation results over this period, and these are set out in the table below. It concluded that CDC's fund investments have been successful in attracting third-party capital to emerging markets.

Fig 7.
Third party capital mobilised 2009-12

	2009	2010	2011	2012
Third-party capital mobilised as a percentage of CDC new investments, 3-year rolling average (target: 200%)	278%	378%	480%	385%

However, CDC recognises that this previous measurement has classed all third party capital – both public (other development finance institutions – DFIs) and private sector investment – as capital mobilised.

From 2014 onwards, CDC only tracks the amount of investment mobilised from private sector investors. This enables CDC to understand how our investment is mobilising investment from sources other than DFIs. Last year, CDC committed US$132m to fund managers, and this helped mobilise US$250m of private investment.

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