



Investment works

CDC's progress against ICAI's recommendations

The following provides commentary on CDC's progress against the five recommendations in the ICAI report directed at CDC.

Recommendation 1

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.

Background

Since the end of the review period CDC has made significant progress against the July 2017 commitment to broaden our impact to support the UN's Global Goals by selecting, measuring and managing our impact through expanded impact criteria. The progress outlined below builds on the foundations in place since 2012 that ensured: 1) investments are directed to the poorest countries and the most job-creating sectors via an innovative screening tool, designed under the guidance of DFID's chief economist - resulting in CDC being "more geographically concentrated on difficult markets, including fragile and conflict affected states, than other DFIs" (ICAI, para 4.10); 2) sub-sector strategies informed individual investments in key areas such as power generation and microfinance; 3) the development impact rationale of each investment is assessed and interrogated at every CDC Investment Committee; 4) a quarterly review of development impact considerations and environmental and social issues for priority investments and all investments reviewed for impact performance with the same regularity as for financial performance; 5) data on jobs, mobilisation of capital and taxes paid is gathered from the portfolio to assess impact at a company and economy-wide level.

CDC commitments	Summary of progress
<p>1.1. Implement a new framework that adopts the Impact Management Project's approach, a global consensus of over 2,000 impact investment organisations.</p>	<p>CDC has designed and implemented a new Impact Framework which is built upon international best practice and was published in our CDC Annual Review 2018 (p.38-39). And was explained further in our 2019 Annual Review and stakeholder day. This framework fully adopts the Impact Management Project's (IMP) approach to impact management and measurement. It is also aligned with the 9 Operating Principles for Impact Management. The Operating Principles for Impact Management were launched in April 2019 and provide a reference point against which impact management systems can be assessed. CDC was part of the advisory group that worked to establish the Principles, is a lead signatory and now sits on the governing board of the Operating Principles Board.</p> <p>For all new investments since September 2019 CDC produces an Impact Dashboard. This builds on the work put in place since 2018 which has seen significant improvements in the assessment of the impact case for each investment and the publishing of the impact thesis online. The new Impact Dashboard describes the expected impact of the investment providing a comprehensive and systematic assessment of the impact against the Impact Management Project's five dimensions of impact (What, Who, How Much, Contribution and Risk). The dashboard links the impact of the investment to the Sustainable Development Goals, aligns to the overarching CDC Impact Framework and is underpinned by the respective sector impact framework. An example of an investment made in 2019 which is shown on CDC's website with its impact dashboard can be found here.</p> <p>CDC's performance against the Operating Principles for Impact Management recently underwent an independent assessment by Tideline Advisors, a certified women-owned advisory firm in impact investing, which judges CDC to have 'advanced' alignment with the majority of the Principles. Tideline assessed CDC as having "deliberate and practical approaches to assessing and articulating its investor contribution for each investment (Principle 3), as well as for selecting impact KPIs (Principle 4) and using these to facilitate comparison of expected and actual impact over time (Principle 6)." (see here)</p>

<p>1.2 Broaden the range of development impact criteria and indicators it monitors to include sectoral and investment specific indicators.</p>	<p>CDC has developed sector impact frameworks for all seven of its strategic sectors. These sector impact frameworks link our impact objectives within each sector to the SDGs and outline the expected impact chains. They help ensure consistency of analysis across transactions and define the appropriate sector indicators aligned with global standards including the Global Impact Investors Network IRIS indicators and the IFI's Harmonised Indicators for Private Sector Operations. The frameworks are subjected to review by independent external experts with five of the seven frameworks reviewed so far and the remaining two underway. These reviews are based on comprehensive evidence reviews and interviews with leading practitioners in the relevant sectors.</p> <p>The CDC Impact Framework also adds a sixth impact dimension to the IMP's approach to ensure a comprehensive assessment of how the impact is achieved in each investment. This assessment reflects CDC's role as an active impact investor and ensures we monitor and manage every investment using the most appropriate indicators at both sector and investment specific levels.</p>
<p>1.3 Grow its impact team including embedding impact specialists in its investment teams and appointing a Chief Impact Officer.</p>	<p>CDC has now completed the setup of its Impact Group under the oversight of its Chief Impact Officer. The Impact Group consists of more than 60 staff – an increase from 3 in 2012. The Impact Group consists of six divisions which provide support throughout the lifetime of the investment. It includes 1) embedded impact professionals who work alongside investment professionals to originate and manage investments 2) Environmental, Social and Governance team – who work on ensuring standards throughout the transaction 3) CDC Plus – who manage a technical assistance (TA) fund to enhance impact of investments and wider business environment 4) Value Creation team – lead on advancing strategic themes across the portfolio (including climate change, job quality and gender) 5) Evaluations – focused on monitoring and evaluating the impact of CDC investments/portfolio and sharing lessons learned 6) Research and Policy – focused on engaging on wider evidence base around the impact of DFI investment.</p>
<p>1.4 Recruited specialists to lead the next stage of CDC's sector work</p>	<p>Sector specialists for all of CDC's focused sectors were recruited in 2018. Sector strategies for all sectors have been produced (see recommendation 4). Sector impact frameworks for all seven of its strategic sectors have been developed (see 1.2 above.)</p>

Recommendation 2

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.

Background

CDC is always striving to maximise impact from its investments not only to deliver the expected impact, but also to identify additional sustainable impact opportunities over the lifetime of the investment. CDC's engagement with its investees is guided by each investment's development impact case and rigorous commercial analysis. Since the end of the review period progress has been made to improve the processes supporting active management of our investments. The progress outlined below builds on the foundations in place since 2012 that ensures: 1) CDC has invested in companies where the achievement of development impact and the success of the business are aligned; 2) CDC teams identify potential impact at origination, structure the investment and agreements to provide the best chance of success, and shape company strategies through boards and advisory committee meetings to support better developmental outcomes; 3) CDC's contribution to investments is assessed and value additionality independently reviewed periodically; 4) time-bound Environmental and Social Action Plans were agreed with companies and implemented; 5) CDC develops and promotes industry good practice with companies and fund managers through training sessions and its ESG Toolkit which has resulted in it becoming "a leader among DFIs in assessing and supporting environmental, social and governance (ESG) issues" (ICAI, para 8, p.ii).

2.1. Enhance the format of its quarterly portfolio reviews, chaired by its Chief Investment Officer, that track progress across the portfolio and make recommendations about how to engage with investees.

Over the course of the past year, CDC has enhanced the format of its Quarterly Portfolio Reviews (QPRs) to track progress across the portfolio. The changes introduced are designed to improve engagement with investees and maximise impact. They include:

- A greater amount of QPR time is now dedicated to discussing the priority investments for that quarter. Selection criteria have been established which focuses time on (i) assets that are underperforming relative to our expectations (on development impact, commercial, environmental and social or business integrity grounds) (ii) investments where CDC has an opportunity to exert influence in order to materially improve performance or impact (including well-performing investments).
- The Chief Impact Officer now attends QPRs alongside the Chief Investment Officer. In addition, QPRs have increased participation of the external Investment Committee members.
- Discussions at QPR meetings focus on what CDC can do to improve the performance, both impact and commercial, of the investee companies and projects. Direct investments that are selected for scrutiny at QPRs are rated according to RAG ratings against the development impact thesis performance.
- Specific actions are agreed and recorded in order to improve both development impact and commercial performance, and these now have greater scrutiny, with the action points circulated to the investment and Impact Group teams and CDC's Markets Committee. All follow-up points are reported against in the subsequent QPR meeting.

CDC has published the following documents that provide insight into impact management:

- Stanford Social Innovations Review article highlighting our learning on impact management from our Impact Fund: [Using measurement to manage impact](#)
- CDC impact measurement handbook giving practical guide on data collection: [Impact Measurement Handbook](#)

2.2 Establish additional capacity to support investees on gender equality, climate change, job quality and skills and leadership initiatives, on top of existing support provided on environmental and social issues.

CDC has invested in the establishment of its Value Creation Strategies team, under the Impact Group, to provide additional capacity to support investees on [gender equality](#), [climate change](#), [job quality](#) and [skills and leadership](#) initiatives. The Value Creation Strategies team employs 20 members of staff with dedicated resource to each of the four focus areas. CDC has published its [gender strategy](#) and [climate change strategy](#) and its Board and Management team have signed off and are implementing the job quality and skills and leadership strategies. Highlights from the gender workstream include working with Global Impact Investing Network and [2X Challenge](#) on the development of industry-wide metrics for gender smart investing; chairing the DFI gender finance collaborative; leading the [Invest2Impact](#) programme for women entrepreneurs in East Africa; anchoring support for the [Gender Smart Investing Summit](#) and working with a variety of CDC investees on gender action plans. Lessons and publications by the gender team include: [2X Challenge one year on](#); [Metrics for gender smart investing](#); [How to measure the gender impact of investments](#); [Supporting financial institutions to work for women](#); [DFI Gender Finance Collaborative](#); [Invest2Impact Business Competition](#).

In addition to the above, CDC continues to provide leading support on environmental and social issues. Alongside the detailed support on transactions the ESG team have:

- continually updated the [E&S Toolkit for Fund Managers](#) and are due to launch the CDC ESG Toolkit for Financial Institutions in 2020;
- launched the latest round of the GP workshop program (in London November 2019) with c100 fund managers/E&S staff present for a range of workshops over a five-day period. This was followed up with a workshop in Lagos in January 2020. Due to COVID-19 restrictions, workshops this year are being run virtually, including a social risk workshop programme focused on fragile and conflict-affected states.
- worked on Good Practice notes on both '[Responsible venture capital](#)', '[Social risk management in Ethiopia](#)', and '[Gender-based violence and harassment](#)' (jointly with IFC and EBRD)
- produced practical advice to investees during COVID-19 by publishing guidance in areas like [job protection](#), [remote working](#) and returning to the workplace ([here](#) and [here](#)), and running related webinars.

2.3 Launch CDC Plus – a grant making facility to support additional impact within the company and wider environment.

CDC has launched its Technical Assistance Facility, [CDC Plus](#). The Facility enables CDC to deepen the impact of our investments at a business level and to complement our investment strategies with market shaping activities to better catalyse economic growth. It focuses on CDC's most inclusive sectors and impact themes and involves working closely with the Department for International Development (DFID) to ensure our work complements its own activity. During 2018, 42 projects received approval for CDC Plus funding (see [CDC 2018 Annual Review p.36](#)), with 30 projects approved in 2019 (see [CDC's 2019 Annual Review](#). This includes a project enabling women to access non-traditional employment opportunities in Gabon (see [CDC Annual Review 2019 p.33](#)) and a multi-year market shaping programme to [strengthen Myanmar's investment ecosystem](#). CDC Plus has also co-published a framework on [technical assistance models in agriculture](#) and a report on [making effective use of grants and technical assistance to support financial institutions](#).

Recommendation 3

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.

Background

DFID and CDC have a jointly agreed Evaluation and Learning Programme. This programme outlines a new and ambitious approach to understanding the impact of CDC's investments. It includes an expanded series of Learning and Insight Studies funded by CDC; a suite of new evaluations of CDC's impact funded by DFID; an enhanced approach to learning and engagement across the broader DFI community; and work to strengthen the different methodological approaches used to assess aspects of CDC's impact that are important, but difficult to measure, such as indirect or secondary impacts. The evaluation aspects of this Programme are overseen by an Evaluation Steering Group chaired by DFID's Chief Economist and including a number of independent experts. This Group met for the third time in October 2019. This section gives an update of the accelerated work undertaken under this programme since the ICAI review. In addition, since the review period CDC has implemented changes to its internal processes to improve its ability to act as a learning organisation. All of this builds on progress since 2012 which has seen CDC undertake impact studies on strategically important issues including: [mobilisation](#) (Harvard Business School); [energy provision](#) (Steward Redqueen); [healthcare](#) (Imperial College); [SME finance](#) (Market Xcel and the Let's Work Partnership).

CDC commitments Summary of progress

3.1 CDC is accelerating its evaluation and learning programme by launching with DFID an impact challenge fund and doubling the number of 'deep dive' studies it conducts by 2021 (from 10 deep dive studies committed to in July 2017 to 20).

Over the past year CDC and DFID have significantly accelerated progress on their new and ambitious approach to understanding the impact of CDC's investments.

Insight: CDC agreed to enhance the number of in-depth impact-focused studies it is undertaking to capture and enhance learnings for CDC investees, CDC/DFID, and other audiences. CDC's Insight reports focus on exploring the impacts of CDC's investments and learning how investing for development can work better. This includes providing impact-related research, up-to-date evidence reviews, and learnings from CDC portfolio companies, often involving in-depth field research.

CDC has published the following studies: three evidence reviews and nine portfolio studies:

Evidence reviews:

- [What is the impact of investing in financial systems?](#) (plus accompanying article [here](#))
- [What is the impact of investing in connectivity?](#) (plus accompanying article [here](#))
- [What's the impact of investing in power?](#)

Portfolio studies:

- [Affordability of food: evidence from Zambia](#) (Zambeef)
- [How our investments make a difference to people living in poverty](#) (Lean Data studies)

- [How does an online supermarket in India impact farmers?](#) (bigbasket) (plus accompanying article [here](#))
- [How innovation in off-grid refrigeration impacts lives in Kenya](#) (M-Kopa) (plus accompanying article [here](#))
- [Why off-grid energy matters](#) (led by 60 Decibels, including data from 49 off-grid solar companies, several from CDC's portfolio) (plus accompanying article [here](#))
- [What is the impact of solar home systems in Nigeria?](#) (Lumos) (plus accompanying article [here](#))
- [What is the impact of sustainable farming on smallholder suppliers in Ethiopia?](#) (GreenPath Food) (plus accompanying article [here](#))
- [What's the impact of online higher education in Africa?](#) (UNICAF) (plus accompanying article [here](#))
- [What is the impact of improved access to finance for healthcare facilities in Kenya?](#) (Medical Credit Fund) (plus accompanying article [here](#))

In total, CDC has now published 12 “deep dive” studies in this strategy period and is on schedule to meet our commitment to complete at least 20 such studies by end 2021. This will also be accompanied by an evolution in the quality and depth of insight in these publications.

The above programme of work has been accompanied by the implementation of an internal and external learning programme under the Insight brand. Each report now has a formal menu of sharing options tailored to the content including: internal sharing (CDC intranet); internal learning and sharing events and discussion; external publication and promotion (newsletters, films, social media campaigns, podcasts, blogs); DFID-CDC focused events; and external stakeholder events.

Reports and papers (in addition to those mentioned under 3.1) include:

Insight reports and articles:

- [How job creation fits into the broader development challenge](#) plus accompanying article [here](#)
- [What have we learnt about investing in fragile and conflict-affected states?](#)
- [What did we learn during our approach to the Ebola crisis?](#)

Partnership reports:

- [CSIS report: Innovations in Guarantees for Development](#)

Research we've contributed to:

- [PWC report: Catalytic development capital: the opportunity for investors](#)
- [ODI/EDFI essay series: Impact of development finance institutions on sustainable development](#)
- [Shell Foundation report: Insights on SME fund performance](#)

Guidance / handbooks / frameworks reports:

- [Impact Measurement Handbook](#)
- [Maximising the impact of education investments](#)

3.2 CDC and DFID will ensure that the lessons from these studies are fully learned and clearly shared with our investment partners and stakeholders.

Recommendation 4

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

Background

Since the end of the review period CDC and DFID have made substantial progress in deepening their partnership in a thoughtful way to optimise the value of official development assistance. The progress outlined below builds on work undertaken since 2012 to increase understanding of each other's strengths, operating models and governance by introducing: 1) a close and systematic shareholder relationship structured through an Annual Shareholder Meeting with the Permanent Secretary, Quarterly Shareholder Meetings with the Director General for Economic Development and International (EDI) Division and weekly meetings between the DFID Shareholder team and CDC; 2) targeted partnership activity resulting in "positive examples of DFID's economic development programmes supporting the work of CDC in Africa" (ICAI, para 4.58: 8) and South Asia; and 3) CDC developing close relationships with more development partners, particularly other development finance institutions (DFIs).

CDC commitments	Summary of progress
4.1 Establishing strong links between their sector specialists.	<p>Sector specialists for all of CDC's focused sectors were recruited in 2018 and full sector strategies, for example on Financial Institutions, have now been delivered. All sector strategies will be published by the end of 2020. Each of the sector strategies has been developed through a four-stage process of consultation with DFID sector teams. Each implementation plan identifies the DFID programmes that CDC can work with and vice versa in each sector. In addition to the formal sessions, individual sector specialists have met regularly with their counterparts and participated in HMG hosted roundtables and discussions. Opportunities for targeted collaboration are already increasing, for example, as a result of the sector engagement CDC now sits on the advisory board of DFID's Commercial Agriculture for Smallholders and Agribusiness programme.</p>
4.2 Creating connections between DFID's country offices and CDC's regional network.	<p>CDC planned its regional expansion based on the development of its pipeline, its actual investment commitments and prioritising available management capacity. CDC took a conscious decision to open offices in India where it had the largest amount invested and an established Director. Across Africa it used a network of Regional Directors as a precursor to setting up offices. It has since established offices in Johannesburg (2017), Kenya and Pakistan (2018) with country representatives in Ethiopia, Zimbabwe and Myanmar. In 2019, CDC has continued to make progress by opening offices in Nigeria and Bangladesh – as well as recruiting a Kenya Director. In 2020 CDC intends to open an office in Egypt and has appointed a country representative in Nepal.</p> <p>Operationally, DFID and CDC have continued to work in a systematic way to maintain communication with DFID's country network of Private Sector Development Advisors. DFID staff are kept up to date with CDC news via CDC's monthly newsletter and the CDC-DFID Portal which provides country level portfolio information.</p> <p>CDC and DFID have continued to identify specific opportunities for strategic collaboration to maximise development impact. Interactions are tailored according to country context focusing on areas where there is considerable value addition.</p>
4.3 Increasing strategic engagement, for example, CDC inputting into HMG's Country Development Diagnostics.	<p>Outside of the sector strategies and engagement at country level activity, CDC and DFID have continued to increase strategic engagement. For example, CDC developed a Modern Slavery Guidance note with DFID, IFC and the European Bank for Reconstruction and Development. The Home Office Modern Slavery Unit has since advised all relevant government departments to use the Good Practice Guidance Note going forward.</p> <p>CDC's collaborative leadership with other DFIs has advanced in 2019 through the 2X Challenge, impact harmonization initiative and DFI fragile states country pilots. In February 2019, CDC alongside the IFC and the Oxford Blavatnik School initiated the first DFI Fragility Forum to improve shared learning.</p>

Recommendation 5

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

Background

Every investment CDC makes balances developmental opportunity, strategic fit, commercial viability and business practices. Achievement of impact happens best when these are aligned. Since the end of the review period CDC has made significant progress in communicating its approach to balancing financial risk – particularly focusing on its new Catalyst Strategies. The progress outlined below builds on work since 2012 that has included: 1) CDC openly communicating its two main development targets: the 3.5 per cent financial return hurdle and the 2.4 score on CDC's Development Impact Grid; 2) CDC reporting its historical financial returns in its annual reports and explaining to the Public Accounts Committee that as its portfolio moved to harder geographies and more innovative investments its financial returns would come down – as they continue to do; 3) Explaining in its July 2017 [Strategic Framework](#) how it manages risk and introduced its two investment approaches – now known as Growth Portfolio and Catalyst Strategies; 4) CDC's publicly available 2017 [Investment Policy](#) stating its additional annual financial target: to preserve its balance sheet.

CDC commitments	Summary of progress
5.1 CDC will launch more external communications detailing the ambition, returns and impact of its approach.	<p>The introduction of the Catalyst Strategies in the 2017 Strategic Framework was a fundamental shift impacting CDC's returns and impact approach. Over the past year, CDC has significantly increased internal and external communication of its Catalyst Strategies, to scale up investment activity and share early learnings with development partners of our experience to date. Those communications outline how CDC balances financial risks and development impact opportunity not only in its investments under Catalyst Strategies but through its whole portfolio.</p> <p>These external publications include:</p> <ul style="list-style-type: none">- CDC website: Catalyst Strategies page- CDC blog about Catalyst roadshow- Impact Alpha Article: An investor's journey – How CDC Group is innovating with catalytic capital- Devex article: How to make money work harder for impact- Devex event video: CDC's catalytic capital approach- Private Equity International: A-Z of Impact Investing- Financial Times article on Gridworks- Financial Times article on Medaccess <p>In addition, CDC has been consistent in its evidence to Parliamentary Committees and other public bodies about its approach to development impact and financial risk – for example Graham Wrigley's evidence to the Public Accounts Committee Q28 in 2017, International Development Committee Q18 in 2018 and International Development Committee ICAI sub-committee Q27 in 2019.</p>