FCDO-BII Evaluation and Learning Programme

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Contents

1. Background

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

The 2022-26 strategy establishes three strategic impact objectives: to invest to achieve productive, sustainable and inclusive development. It also introduces a new Impact Score to help BII manage strategic impact on a portfolio basis in line with these impact objectives. BII's impact management approach is summarised in the recent publication "What impact means to us: An overview of how we manage impact".

This document builds on commitments made in the 2017 and 2022 BII business cases, and presents an overview of BII's monitoring and evaluation framework, aimed at ensuring that FCDO and BII collaborate effectively to better understand BII's development impact. It provides detail on: BII's portfolio monitoring processes, objectives of an enhanced evaluation and learning programme, activities under this programme, and a management and governance structure to oversee it.

2. Why do we need to monitor and evaluate BII's development impact?

Ongoing monitoring and regular, longer-term evaluations of BIIs impact are critical to help FCDO and BII better understand how, and in what contexts, BII's investments deliver tangible, sustainable development impact on people, businesses, sectors and overall economies. This information is crucial to help BII 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 BII's theory of change, monitoring and evaluation also: supports transparency and accountability; contributes to the wider understanding of the development finance community; and ensures BII's capital is invested effectively to deliver value for UK taxpayers.

3. What is the theory of change for BII and what does the evidence tell us?

The theory of change underpinning BII's activities is set out below in Figure 1, which summarises the four stages from input to impact – illustrating how FCDO, through BII:

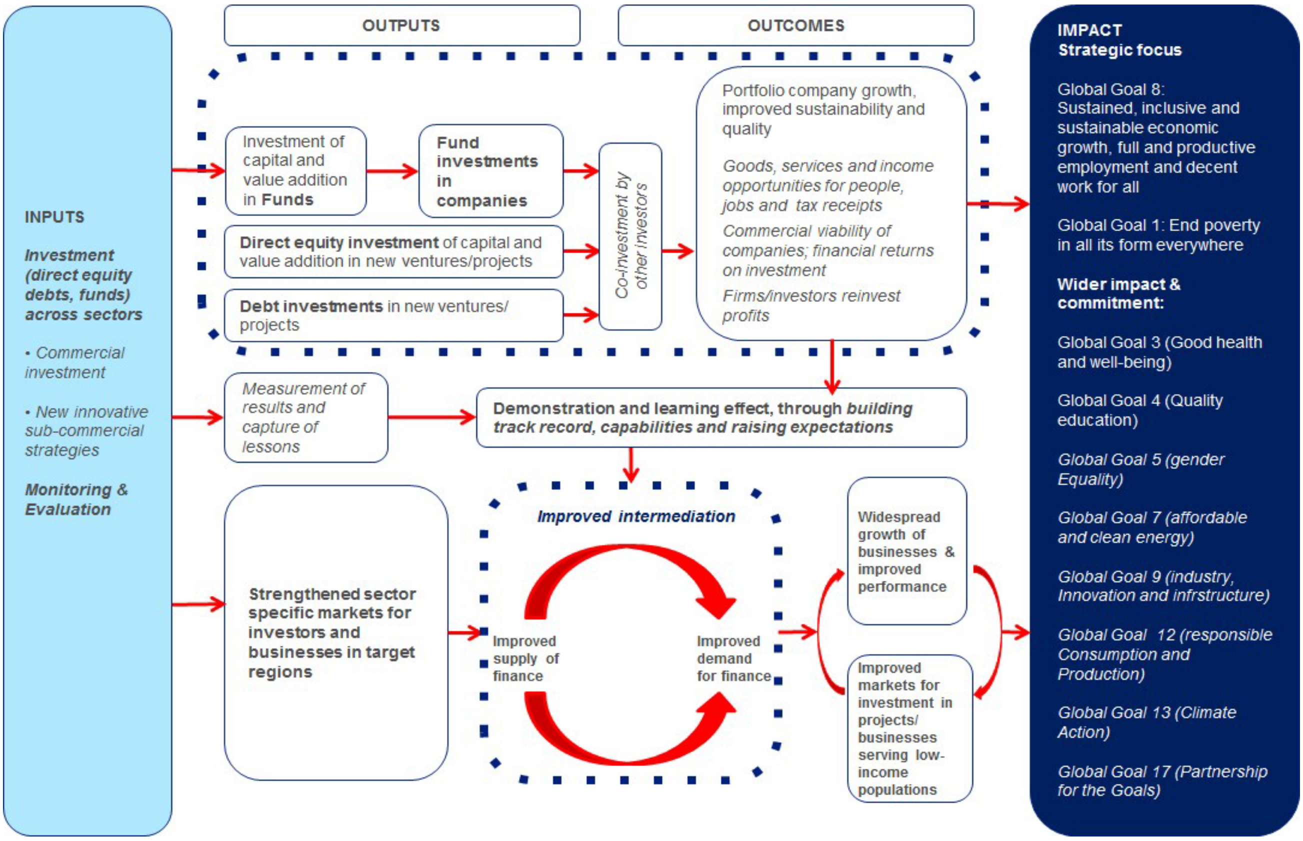
1. will deploy commercial investment and scale new innovative approaches of sub-commercial capital – inputs

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**.

Figure 1: FCDO Investment Capital Theory of Change



Monitoring data, case studies and shorter-term evaluations and studies from BII 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 BII collect to understand development impact?

BII collects, aggregates, and publicly reports on jobs supported, taxes paid, and third-party capital mobilised at a portfolio level. It also aggregates metrics at sector and thematic levels to help us track impact in priority sectors and focus areas. And although, not aggregable, BII tracks a range of indicators aligned to each investment's impact thesis and dashboard and set out in its monitoring plan.

Through the use of the Impact Score, BII also assesses the potential impact of each investment, when screening investment opportunities *ex-ante* and updated *ex-post* every two-years and at exit. This will enable feedback loops into BII's future investment decision making and activities, help stakeholders understand BII's development impact and can also be used as a source of secondary data for future in-depth evaluations of BII. Box 1 highlights the key areas of development impact that BII tracks.

Box 1: BII's Investee Impact Monitoring & Evaluation

- Defining a development impact thesis for each individual investment that represents a clear statement of why BII is making a particular investment
- Publishing a dashboard articulating this thesis against the relevant SDGs and using the Impact Management Project's dimensions of impact
- Calculating an Impact Score for each investment which reflects an investment's contribution to productive, sustainable, and inclusive development – updated every two years and at exit
- 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

Beyond regular monitoring, BII commissions and manages independent Insight studies and evidence reviews to fill critical evidence gaps in specific sectors and on key topics. These studies focus on BII investees or thematic areas across different sectors and sub-sectors; they provide insights into the actual or likely development impact of BII's investments and generate useful learnings about innovative business models and strategies. Study findings are reported to, the Development Impact Committee of the BII Board (DevCo), and are published on BII's website.

Given the importance of indirect impacts in BII's impact frameworks, another focus of work has been to build capacity to undertake consistent estimates of the indirect impacts arising from investments. Working with FMO and other development finance institutions, this has led to the creation of the Joint Impact Model (JIM), launched in 2020. The JIM enables users to estimate financial flows through the economy and their resulting economic (value added), social (employment) and environmental (greenhouse gas emissions) impact. In addition to supporting access to this tool by other institutions, BII uses it to estimate indirect jobs, value added, and greenhouse gas emissions related to its investments, and reports on JIM employment results in their annual review.

5. How does the FCDO-BII Evaluation and Learning Programme deepen our understanding of BII's development impact?

As part of the work to embed development impact more deeply across BII, an enhanced and systematic focus on evaluation and learning was launched in late 2017 to deepen BII 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 BII learn, and supporting peer review of evaluation outputs (as appropriate). Further to this, the programme also champions 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 of the FCDO-BII Evaluation and Learning Programme

The evaluation and learning programme and research questions is guided by a theory-based approach that tests the assumptions underlying BII's impact frameworks. BII'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 more manageable strands, which – taken together – offer broad coverage across the theory of change and sector strategies of BII investments.

These strands are:

1. Large multi-year sector studies covering BII's three priority sectors: (1) Financial Services; (2) Infrastructure and (3) Industries, Technology and Services (ITS), and focusing on BII's broader development impact above and beyond the impacts being tracked for individual investments
2. A longitudinal evaluation on BII's mobilisation of private capital and investor perceptions
3. An impact research challenge fund

Each of these elements is discussed further below.

6.1 Sector studies

The multi-year sector studies have been commissioned to allow FCDO and BII to better understand development impact across all BII's priority sectors and critical cross-cutting themes. Emerging findings from these sector studies have been used to update and inform BII sector and sub-sector strategies (see links to BII's management response below, which explain how findings have helped inform BII's sector strategies).

The sector studies are organised around BII's three priority sectors: (1) Financial Services; (2) Infrastructure and (3) Industries, Technology and Services (ITS) and staggered across years. Each study consists of two phases across 3+ years:

- **Phase 1** is a desk-based evaluation of BII's portfolio of investments since 2012, which assesses impact performance against BII's sector impact frameworks, by mapping investments onto impact pathways and the outputs/outcomes the investment is expected to deliver (e.g. direct job creation, improved access to goods and services, more inclusive supply-chains etc), and then analysing the evidence to determine if the expected outcome is on track to materialise. The evidence takes the form of BII's internal data and documentation, interviews with BII investment managers, information made publicly available by our investees (e.g. annual reports) and the external evidence base.

- **Phase 2** is a series of in-depth studies, where the evaluators attempt to go deeper and gather data beyond the indicators BII already collects through bespoke primary research, and if possible, try to attribute the impacts to BII through counterfactual comparisons. The in-depth studies have a strong focus on learning (that is, exploring *why* investments are/are not achieving the impacts expected, and what lessons can be taken into consideration for similar investments in the future).

The first sector study covering the **Financial Services portfolio** began in 2019 and is now in the final year of phase 2. The phase 1 report was published by FCDO in January 2021 and the reports from the phase 2 in-depth studies are expected to be published later in 2023. BII Management have written a detailed response to explain how learning from this evaluation helped guide strategic choices relating to financial services as set out in the 2022-26 strategy.

The second sector study covering the **Infrastructure portfolio** began in 2020 and is in the first year of phase 2. The phase 1 report was published by FCDO in April 2022 and the reports from the phase 2 in-depth studies are expected to be published in 2024.

The third and final sector study covering the **ITS portfolio** began in January 2023. The phase 1 report is expected to be published at the end of 2023, with phase 2 taking place over 2024 and 2025.

6.2 Longitudinal evaluation on mobilising of private sector capital

FCDO contracted a supplier to undertake a 10-year study starting in 2018 to understand when and how BII mobilises investment, the drivers of this mobilisation, and the influence of country and sector contexts. The study aims to use contribution analysis to estimate BII's role in mobilising investment. It distinguishes between direct (i.e. co-investment in BII deals), and indirect mobilisation (i.e. investment influenced by BII but where BII is not a co-investor).

The approach designed at the start of the study relied on developing logic models for direct and indirect mobilisation, and building a cumulative weight of evidence to test and refine these logic models over time through interconnected work streams focusing on:

- **Direct mobilisation,** focusing on where BII's investment into a deal directly influences private investors to invest in the same deal.
- **Indirect mobilisation,** focusing on where other actors are indirectly influenced, through demonstration effects of previous successful BII deals, to make similar investments.
- **Investor sentiment,** focusing on the drivers of market opinion on the attractiveness of investment in particular countries or sectors, which may be influenced by BII's activities and affect BII's ability to mobilise investment.
- **Macro-economic effects,** focusing on how BII's (and other DFI's) investments and influence may create a multiplier effect at the national level, leading to an overall improvement in the macroeconomic environment.

This study is now at the midterm review stage, which provides an opportunity to take stock of progress to date and refine the scope and activities planned for the second half of the study.

In parallel of this study, BII has refined how it incorporates mobilisation in its strategy, and identified new potential mobilisation pathways that could be explored.

6.3 Impact Research Challenge Fund

FCDO and BII 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 BII 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 BII, 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 and subsequent calls have focused on questions relating to women's economic empowerment and climate finance.

7. Management and governance

The management and governance of the evaluation and learning programme is intended to ensure 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 BII and FCDO, coupled with independent expert advice and oversight.

There are four important functions:

1. Managing the relationship with BII 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 BII decision making and FCDO oversight, sharing with and learning from the evaluation activities of other DFIs

To this end, the evaluations are overseen by the FCDO-BII Evaluations & Learning Steering Group comprising BII, FCDO and three independent experts.

As of June 2023, the Steering Group is comprised as follows:

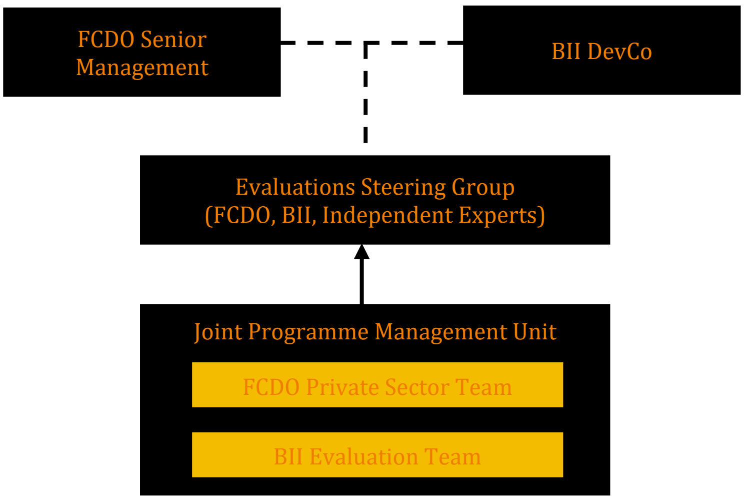
- Chair: FCDO Chief Economist – Adnan Khan
- FCDO representative: BII Senior Relationship Officer – Dan Wilcox
- BII representative: Chief Impact Officer – Liz Lloyd
- Independent expert: Former Director-General, Evaluation at the World Bank Group – Alison Evans
- Independent expert: Professor of Practice in the Department of Finance and Fellow in the School of Public Policy at the London School of Economics – Greg Fischer
- Independent expert: Professor of Applied Economics at the MIT Sloan School of Management – Tavneet Suri

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 BII and FCDO
- Dissemination activities
- Risk management and mitigation

The Steering Group meets at least annually and through the Programme Management Unit (see below) recommends an annual programme of work to BIIs Development Impact Committee (DevCo) and FCDO Senior Management.

Figure 3: Governance structure



In addition, a Programme Management Unit (PMU) has been established. This is resourced by both BII and FCDO. BII and FCDO work closely together to manage the numerous evaluation strands and ensure evaluations are fit for purpose and provide relevant insight for FCDO, BII and (where relevant) investee companies. The PMU jointly defines and agrees 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.

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

8. How do FCDO and BII ensure learning from the programme is communicated and utilised?

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 BII, and BII's own understanding of the way its investments create impact. To support the understanding and internalisation of the information and learning produced through the evaluations within BII and FCDO the following activities are conducted:

- Meetings between the Evaluations Steering Group, DevCo and FCDO Senior Management
- Discussions of evaluation findings at BII/FCDO Shareholder Meetings
- Regular thematic and/or sector seminars for BII and FCDO staff highlighting key findings and implications for programming/investment decisions
- Mechanisms to enable evaluation findings to feed into BIIs strategy process

The evaluation findings are published externally by FCDO and BII, alongside a management response, and FCDO and BII look for opportunities to disseminate more broadly, through publications; presentations and working sessions with external stakeholders; and conferences with DFIs, IFIs and others.

British International Investment
123 Victoria Street
London SW1E 6DE
United Kingdom
+44 20 7963 4700

bii.co.uk

linkedin.com/company/british-international-investment
Twitter @BritishIntInv