

Annex 3 Proposed Revisions to the Prosperity Fund Theory of Change, and Methodology for Future Revisions

Prosperity Fund – Evaluation and Learning

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Version History

Proposed Revisions to the Prosperity Fund Theory of Change, and Methodology for Future Revisions			
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This report has been prepared during the inception phase of the Prosperity Fund Evaluation and Learning contract. It forms an annex to the main Inception Report.

It was produced and approved by the Prosperity Fund Management Office before the main Inception Report and Workplan were finalised and agreed.

If there is any inconsistency between this annex and the main Inception Report and Workplan, the main Inception Report and Workplan provides the agreed position.

Executive Summary

Introduction

This Paper reviews the theory of change of the Prosperity Fund (Fund-level ToC), comparing the existing Fund-level ToC with the latest information on Prosperity Fund (PF) programmes, and PF strategy and objectives.

It proposes two additions to the Fund-level ToC:

- The inclusion of six new assumptions.
- The inclusion of information on PF project ‘families’ – i.e. projects grouped together on a single causal pathway within the ToC.

These strengthen the Fund-level ToC, as they elaborate the causal pathways the PF is expected to follow from project / activity through to impact.

Each year the Fund-level ToC will be reviewed, taking account of changes in PF strategy and context, information about the profile and implementation of programmes, information from the PF monitoring and reporting (M&R) system, *Prospero*, and – most importantly – PF stakeholder perspectives and understanding of the Fund-level ToC.

The Prosperity Fund theory of change

The Fund-level ToC was conceived by the PF Management Office (PFMO) as a conceptual tool with which to represent the needs and expectations of the different government stakeholders involved in the Fund. It provided a way of presenting a complex, multi-interest cross-Whitehall Fund to a variety of stakeholders. It plays an important role in PF communication, and securing buy-in, engagement, and internal cohesion.

The Fund level-TOC outlines expected PF impacts, outcomes and intermediate outcomes. It also provides information on the nature of expected outputs and how these will contribute to the intermediate outcomes. It does not provide detail on activities and projects, nor on causal pathways from activity to intermediate outcome. There is only one assumption specified (that *the three-pillar understanding of sustainability runs through programming design – green, self-financing and inclusive*).

The PFMO has used the Fund-level ToC to inform programme selection and it has encouraged programmes to align programme ToCs with the Fund-level ToC. The Evaluation and Learning (E&L) team’s initial finding is that programmes, in their design, demonstrate relatively strong alignment to the Fund-level ToC: while a few projects appear as outliers, most can be grouped along one or more pathway leading up to Fund-level intermediate outcomes. This finding will be reviewed as more information on programmes (and their implementation) becomes available.

Possible modifications to the Fund-level Theory of Change

This review proposes two additions to the existing Fund-level ToC. First, it proposes to make explicit (in the diagram and narrative) seven assumptions about how the Fund is designed and how it will be implemented and managed, as follows:

- The three-pillar understanding of sustainability runs through programming design – green, self-financing and inclusive.

- The design of PF programmes and interventions has taken into account the economic empowerment of women and other excluded groups, in line with the UK's Gender Equality Act and the Prosperity Fund Gender and Inclusion Policy, Guidance and Inclusion Framework.
- There is an appropriate balance between primary and secondary benefit.
- The Prosperity Fund will create benefits which are additional to what would otherwise occur, and provides a unique programme offering to the countries and sectors in which it works.
- Human resource capacity and management needs at programme and fund level have been identified, and measures have been put in place to support management.
- Evidence on Value for Money (VfM) is used to guide improvements to PF programmes and processes.
- The PF is learning lessons from its programmes and projects.

These assumptions will be tested through the first *Annual Fund Evaluation* and through *Family-level Evaluations* during Year 1 of the PF Evaluation and Learning (E&L) assignment.

Second, it proposes to map onto the Fund-level ToC diagram, ten 'families' of projects, which represent projects sharing a common sectoral focus or a similar pathway to change:

1. Physical Infrastructure,
2. Future Cities,
3. Energy and Low Carbon,
4. Technology / Digital Access,
5. Health and Education,
6. Innovation,
7. Trade,
8. Financial services,
9. Business Environment Reform (BER), and
10. Transparency and Anti-Corruption.

This review also identifies eight 'activity types', which characterise the type of interventions that the PF provides. However, it does not recommend these activity types be included in the Fund-level ToC until they have been validated through Year 1 evaluation activities. This is because project activities are likely to change over the coming year, as programmes move from design through Business Case approval to implementation.

Methodology followed for this review of the Fund-level theory of change

This paper is based on an in-depth review of Fund-level documentation, programme Business Cases (portfolio analysis) and comparator interventions; and consultation with stakeholders.

The initial analysis of causal pathways and of the nature of PF activities and results is based on an analysis of 16 Business Cases that were available to the E&L team in December 2017 (some of which were only available in draft form). In view of this, the findings on the ToC's

causal pathways, activities and results are only emerging, and may be subject to change once they have been validated with programme teams (this activity is ongoing) and ‘tested’ in a live environment (once programmes start to be implemented). The grouping of PF programmes and projects into ‘families’ may be amended at the end of March 2018, once the second round of PF stakeholder engagement is complete, and stakeholders have had a chance to discuss the fit between their project and a particular family. It is expected that one or two additional families may be added, and some family names may change.

Future theory of change review activities

The E&L team propose that a review of the ToC process is undertaken annually from April to June, to support adaptive programming and to track whether the ToC is still relevant to the Fund’s strategy and is measurable.

The annual ToC review will focus on causal pathways and assumptions. During the first year of evaluation, the ‘families’ of projects will be reviewed, through interaction with the programme managers and review of programme evaluability assessments. As programme results emerge, evaluations that focus on different ‘families’ may be undertaken, providing evaluative learning for the Fund-level ToC, as well as opportunities for programmes to learn from each other. The *Annual Fund Evaluation* will make recommendations for any updates to the ToC.

The process will be coordinated with the monitoring and reporting (M&R) contractor. This is to allow the E&L team to see how programme teams have ‘tagged’ their M&R indicators, which will review how they think their projects will feed into the Fund-level ToC. (For more information see the M&R contractor’s *Theory of Change Review Paper*).

1. Introduction

1.1 The Prosperity Fund theory of change

The Prosperity Fund (PF) theory of change (ToC) was initially developed in 2015¹ on the basis of extensive cross government consultation, and was updated in 2016 following a review by the Fund's dedicated monitoring and evaluation lead.² The 2016 ToC is considered the current and most up-to-date, appearing in this format in the recently published Prosperity Fund Annual Report for 2016/17.³ However, given the stated aim of the PF to adapt and evolve as the Fund is implemented,⁴ future revisions and/or additions to the ToC are anticipated. This present Paper proposes additions, which elaborate (a) assumptions and (b) detail around the nature of the projects 'nested' within the Fund and the way that these cluster into 'families'.

The Fund-level ToC consists of a diagrammatic representation (Figure 1, which is the format in which it appears in publications) and the narrative which accompanies it. This narrative can be found in the 2016 ToC (narrative focussed mainly on outputs) and the original 2015 ToC (contains detailed narrative, mainly on outcomes). It is expected that this present Paper and future work of the E&L assignment to review the ToC will also contribute to the narrative.

1.2 The PF theory of change as the evaluation framework

The PF Evaluation is theory-based and, in this respect, uses the Fund-level ToC as its framework for assessing intervention effectiveness in delivering expected outputs, intermediate outcomes and contribution towards expected impact. Both the PF Management Office (PFMO) and the E&L team recognise a theory-based approach as the most appropriate for evaluating the PF, due to the complexity, diversity and size of its composition.

The evaluation questions, presented in the E&L Framework Paper, have been mapped to the ToC so that together they can enable the interrogation of different elements of the ToC (e.g. expected outputs and outcomes, causal pathways, assumptions, the balance between primary and secondary benefits). Overall, the questions are tailored to use a ToC framework to assess (a) what's happening? (b) why? and (c) so what? The Fund-level ToC will also guide the sampling of programmes, the approach to synthesis of PF results and the selection of themes for investigation for each evaluation cycle.

For the evaluators to use the ToC in this way, they require an in-depth understanding of the different milestones of the ToC, its causal pathways and assumptions from project up to impact level. To gather this information, consultation with Fund and programme-level stakeholders will be crucial to inform continuing reviews of the ToC to capture any change in its individual pathways and milestones.

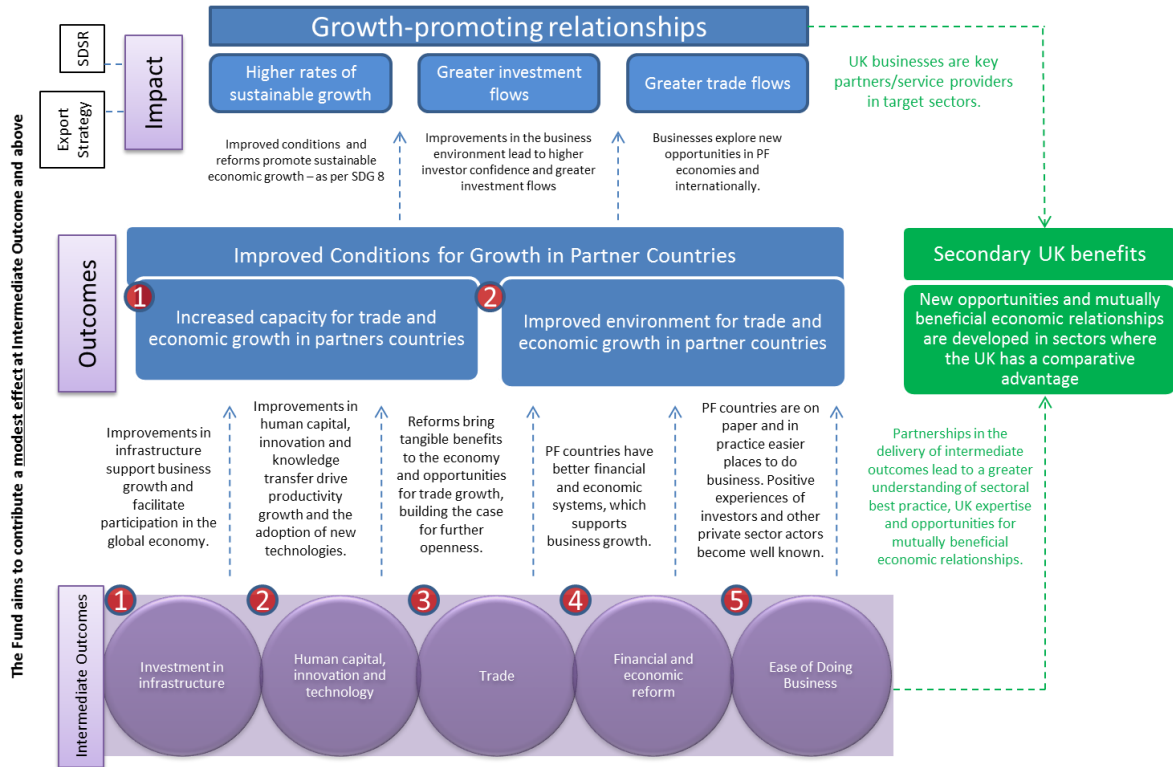
¹ FCO (2015) The UK Prosperity Fund: Theory of Change Narrative, Evidence and Assumptions, 30 October 2015. Unpublished.

² PFMO (2016) Proposed revised theory of change 01, 15 November 2016

³ HMG (2017) The Prosperity Fund: Annual Report 2016/17, December 2017

⁴ See e.g. The Prosperity Fund: Annual Report 2016/17, p16

PROSPERITY FUND THEORY OF CHANGE



Three-pillar understanding of sustainability runs through programming design – green, self-financing and inclusive

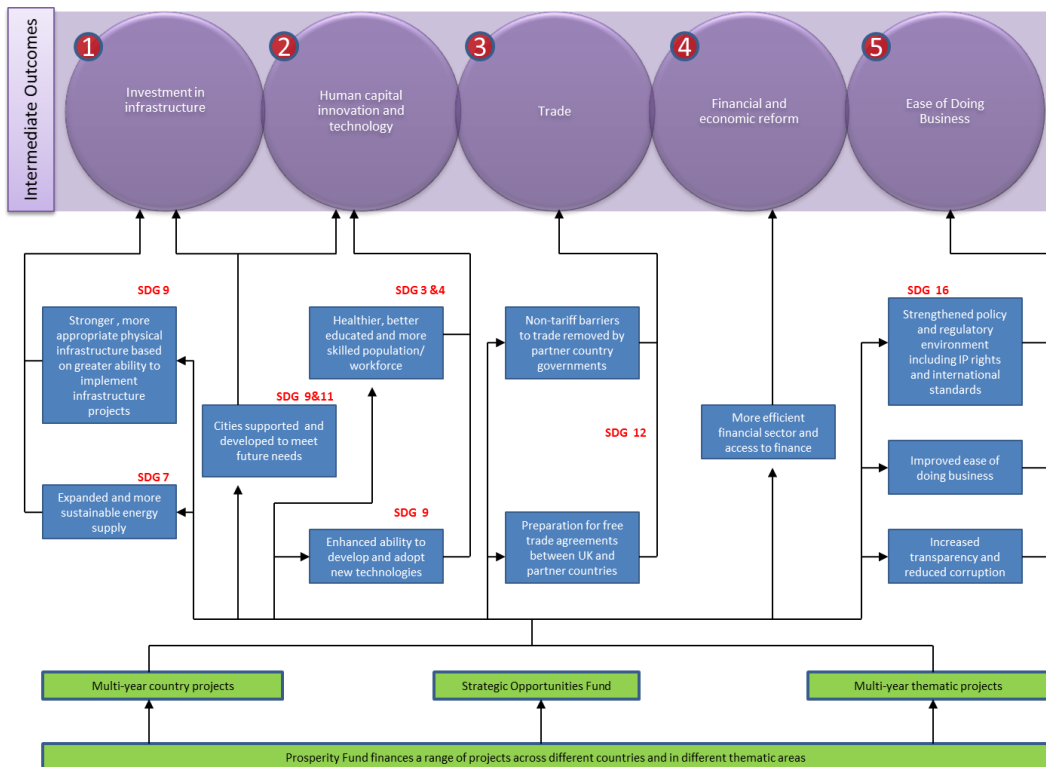


Figure 1: The Prosperity Fund theory of change, December 2016

1.3 Purpose of this Paper

The purpose of this Paper is to present an initial analysis of the Fund-level ToC, collating information from a variety of sources and considering possible gaps in the ToC. The aim is to identify aspects of the ToC which could already be elaborated (upon agreement with the Fund's key stakeholders), and to identify discussion points and aspects for investigation in year one (Y1) of the evaluation, which might lead to further recommendations or suggestions for change.

Consultation with PFMO and other key PF stakeholders in this inception period has demonstrated there is an appetite for more detail on the Fund's composition, particularly its 'lower half'.⁵ However changes, particularly to the 'upper half', which has gained high-level government sign-off, will need a strong evidential basis.

1.4 Methodology followed

This Paper has been developed on the basis of a desk-based review of Fund-level documentation, programme Business Cases and evidence from similar programmes, supplemented by primary evidence from stakeholder consultation. The analysis has not yet been tested in a live environment (since programmes are not yet in implementation), but validation has started through the initial consultation processes and will continue into Y1.

1.4.1 Initial review and consultations

First, an initial review of the principal Fund-level ToC documents⁶ was conducted. The purpose of the initial review was to build the E&L team's understanding of the Fund, but also to identify aspects requiring further explanation (e.g. as to their rationale or origin) and potential areas of change to discuss with key stakeholders.

This initial review was followed up by a consultative workshop (October 2017) with members of the PFMO (including its design and MREL teams) and the Technical Advisory Group (TAG) to better understand the different ways that the ToC had been used and applied to date, future expectations for its use, the appetite for and interest in changing the ToC, and expectations for the E&L team's use of the ToC. Useful information on expectations, assumptions and potential risks arose from these activities, which have been incorporated into this Paper, particularly in Chapter 2.

After further document review, a theory of change session was incorporated into the TAG meeting in January 2018. The meeting provided a timely opportunity to gain an understanding of key Fund-level stakeholders' expectations of how the ToC will be used in the evaluation.

This present Paper also makes use of information gathered through one-to-one meetings with PF programme stakeholders (conducted by the E&L stakeholder engagement team). These consultations took place from September to November 2017. The main purpose of the meetings was to scope out the status of programme implementation, including the status and

⁵ This is because more information about programmes is available now that Business Cases are being approved and are moving towards implementation.

⁶ The original 2015 ToC narrative, the 2016 Options Paper (which discusses possible areas of revision) and the 2016 'proposed revised ToC' which was eventually adopted.

quality of programme ToCs (and the need or desire for support in refining these). Focused at programme-level, the meetings were not intended to explore stakeholder opinion on the Fund-level ToC, yet they provide some useful information on the context in which the Fund-level ToC is being implemented and some of the assumptions which underpin it.

1.4.2 In-depth documentation and literature review

Outputs, intermediate outcomes, outcomes and impacts, the proposed causal pathways between these, and the assumptions underpinning them were extracted and mapped into a matrix to assess (i) whether there was consistency between the way these were represented in Fund-level ToC documents;⁷ and (ii) to see whether the narratives could provide more detail on the scope of these elements.

At the same time, the E&L team undertook a portfolio analysis of Business Cases.⁸ The information emerging from this analysis provided a crucial basis for building a picture of the composition and ‘theory’ of the ‘lower half’ of the ToC, which is summarised and presented in Chapter 3, particularly sections 3.4 and 3.5.

Box 1. Scope and process for the portfolio analysis

The portfolio analysis is based on the 16 programmes Business Cases which were available October to December 2017. Some of the Business Cases were in draft form, so their content may have changed since the mapping was completed (in mid-December). The portfolio analysis will be updated on a rolling basis as more information on the programmes and projects becomes available.

The 16 mapped Business Cases were 1. Colombia, 2. Global Insurance and Risk Facility, 3. AIIB Special Fund, 4. India, 5. China, 6. Global Business Environment, 7. Mexico, 8. Digital Access, 9. Global Anti-Corruption, 11. NIIF, 12. Brazil, 15. Indonesia, 16. Global Infrastructure, 17. Global Trade, 18. SE Asia Clean Energy, 19. SE Asia Trade and Economic Reform.

Four Business Cases subsequently made available but not yet integrated into the analysis are 10. Commonwealth Marine Economies, 20. Future Cities, 21. Better Health, 22. Global Finance for Inclusive Growth. The three Business Cases still not available are: 13. Concessional Export Credit Facility, 14. Global Education, 23. IPA.

An assessment of other international interventions operating within four PF sectors / thematic areas (which roughly align with four of the PF’s five ‘intermediate outcomes’: infrastructure, trade, business reform and financial reform) was carried out as a means of further understanding potential causal pathways which might later operate *within* the PF once its content (i.e. programmes) is further elaborated. This proved a useful exercise in *externally* validating the ToC.⁹

⁷ The original 2015 ToC narrative, the 2016 Options Paper (which discusses possible areas of revision), the 2016 ‘proposed revised ToC’ which was eventually adopted, and the 2016/2017 Prosperity Fund Annual Report.

⁸ Conducted as part of the development of an approach to synthesis within the evaluation.

⁹ Where *internal* validation is that which is conducted through the testing of ToC components with ToC ‘owners’.

The E&L team's *Context Mapping Report* and *Stakeholder Map: Briefing Note* were reviewed for stakeholder perceptions on the PF's direction of change and for assumptions, as well as for information on the Fund-level ToC's context.

1.5 The structure of this Paper

This Paper is structured as a discussion of the Fund-level ToC with emerging aspects for further investigation highlighted.

The first Chapter following this introduction provides some background on how the ToC has been used to date and summarises commentary on the Fund-level ToC from recent NAO, ICAI and other reviews of the PF.

Following this, the main body of the Paper reviews each component of the Fund-level ToC. It discusses assumptions (those identified in the Fund-level ToC and those which are possibly missing) and elaborates the 'lower half' of the Fund-level ToC using information from the E&L portfolio analysis. It proposes additions to the Fund-level ToC for review by the PFMO, Portfolio Board and TAG.

The final Chapter provides an outline of how the Fund-level ToC will be reviewed on an annual basis (the process, data and objectives of the activity).

1.6 Theory of change review as an iterative process

The E&L team share the view of the PFMO: that a ToC can evolve over time based on changing circumstances or new observations. We appreciate that it is not predictive of change;¹⁰ rather, it represents the hypotheses of key stakeholders as to the direction of travel an intervention will take, based on prior experience or existing examples. As new information becomes apparent, so hypotheses can change. Similarly, as circumstances in the intervention's context change, so might the direction of travel. This means that deviation from the initial 'baseline' ToC does not signify intervention failure, but rather an evolution based on implementation reality.

Therefore, as part of the PF evaluation, the E&L team propose to review the Fund-level ToC regularly (we suggest annually) to assess progress and produce learning (for more on our proposed approach, please see Chapter 4). The ToC will also frame and guide investigation into the factors affecting Fund success. Importantly, ToC assumptions will be tested and investigated. An overview of how different aspects of the ToC frame the evaluation questions was presented in the *Evaluation Framework Paper* submitted to the PFMO in December 2017. Further detail on the theory-based evaluation approach and methodology is presented in the *Inception Report* which was submitted at the end of February 2018.

2. Use and application of the theory of change to date

The 2016 ToC identified five applications for the Fund-level ToC:

- 1) As a planning tool for the PFMO to enable them to identify gaps in the portfolio as compared with the ToC, to aid decision-making around funding;

¹⁰ Mayne, J. (2017), Theory of Change Analysis: Building Robust Theories of Change, Canadian Journal of Program Evaluation

- 2) To provide the framework for monitoring and evaluation by being the basis for indicator identification and evaluation question development (where evaluation questions interrogate which ToC elements have occurred and whether links have been causal);
- 3) As a guideline for programme managers and implementers to enable them to identify whether and where their programme fits into the PF as a whole;
- 4) As a way of communicating about the Fund (and its chosen change processes) with a range of internal and external stakeholders; and
- 5) As a learning tool – particularly when combined with monitoring and evaluation activities – through which to draw lessons about what has happened in practice compared with what was expected to happen, and why; to help Fund and programme level managers and implementers make course corrections to the Fund’s portfolio.

2.1 Application as an evaluation and monitoring framework

The approach to using the ToC as an evaluation framework was briefly described in Chapter 1 and is described in more detail in the separate *Evaluation Framework Paper*. The Monitoring and Reporting (M&R) service have used the Fund-level ToC to structure the Indicator Framework used as the basis for regular monitoring and reporting.

2.2 Use of the theory of change by Fund and programme managers

The ToC, in its present form, was conceived to a large extent as a conceptual tool through which to cover and fulfil the diverse needs and expectations of the different government stakeholders involved in the Fund. It provided a way of presenting a complex cross-Whitehall Fund with significant stakeholder interest. The ToC therefore plays an important role in PF communication, buy-in and engagement, and internal cohesion.

The PFMO has used the Fund-level ToC to inform programme selection and it has encouraged programmes to design their Business Cases around (and align programme ToCs with) the Fund-level ToC. Although stakeholder engagement conducted during the inception period suggested that programmes varied in the extent to which they aligned themselves with the Fund-level ToC, the portfolio analysis of 16 Business Cases suggested relatively strong alignment. It found that while a few projects appeared as outliers, most could be grouped along one or more pathways which they expected would lead from the intervention up to intermediate outcomes aligned with those of the Fund-level ToC.

Day-to-day, the PFMO provide strategic guidance to programmes as to the design of programmes and projects. They try to ensure that programmes are designed to contribute to the PF’s primary purpose and secondary benefit goals by requiring programmes to represent this in their individual ToCs and programme design documents.¹¹

Going forward, PFMO and TAG members see a variety of roles for the ToC.¹² Particularly, they see it as the key tool for monitoring, evaluation and learning – the “glue” holding it all together. They also consider that it should help with decision-making, strategising and budgeting: it should help the PFMO to define ‘what PF success looks like’.

¹¹ Where this representation is achieved will be a point of investigation for Y1.

¹² As stated during the Theory of Change Workshop held with the PFMO and TAG members on 18th October 2017.

2.3 Commentary on the Fund theory of change to date

As a large and highly strategic intervention,¹³ the PF has in its first two years already been subject to several different reviews and audits.¹⁴ This final section provides a brief overview of commentary on the Fund (by those reviewers and auditors). Some of the main commentary includes:

Portfolio fragmentation: The risk of “*fragmentation*” (i.e. variation in and inconsistency of strategy) was identified in the ICAI review. Our initial portfolio analysis of the Business Cases has also identified some variation in strategy from the Fund to programme and project level, but it has also identified many common themes and approaches.

Balance of primary and secondary benefits: The challenge of ensuring a balance between these two objectives and preventing adverse effects has been highlighted by ICAI. Indeed, the idea that there can be an effective balance between primary purpose and secondary benefits is recognised as an underlying Fund assumption by the E&L team and is discussed further in section 3.2 below.

Adequacy as a logic model: The SEQAS review of the M&R and E&L TOR commented that the ToC was more of a “*conceptual framework, rather than a fully articulated ToC*”. Theories of change serve several purposes, not least as a tool for understanding what an intervention *expects* to achieve, so that this hypothesis may be tested and findings around ‘what works’ and ‘what does not work’ identified as a result. For this ‘testing’ (i.e. evaluation) to be effective, the ToC must be as accurately representative of the intervention mechanisms as possible. However, the PF faces two challenges to this: (i) it is highly complex, large in size, involving many variants (stakeholders, contexts, sectors, activities) – and to present this as a simple, ‘testable’ model is challenging; (ii) the Fund is highly political and subject to numerous vertical (top-down) and horizontal influences which have been necessarily represented in the ToC. These factors explain why the ToC might appear as a conceptual framework.

3. The Prosperity Fund theory of change

This section provides both the E&L team’s elaboration and an analysis of the Fund-level ToC from the top (‘impacts’) down (to outputs). It is based primarily on E&L team’s review of Fund-level ToC documentation, the initial portfolio analysis of programmes (based on Business Cases), and stakeholder views. It covers: impacts and outcomes, assumptions, intermediate outcomes, PF ‘families’ of projects, activities and outputs, as well as synergies between

¹³ The Fund is based on the principal assumption that “*the only long-term solution to [reducing poverty] is sustained and inclusive economic growth and development*” (see Annual Report of the Prosperity Fund 2016/17 p5). The Fund provides the means for the UK to test this assumption (and to test cross-Whitehall approaches to implementing ODA) in order to influence future ODA programming. Further, it is a clearly stated aim of the Fund to support the government’s post-Brexit trade policy ambition (see, for example, the Annual Report of the Prosperity Fund 2016/17 p16).

¹⁴ For example: Independent Commission for Aid Impact (2017), *The cross-government Prosperity Fund, A Rapid Review*; National Audit Office (2017) Review (unpublished); Infrastructure and Projects Authority (IPA) (2016) *Project Validation Review report final v1.0*, unpublished; IPA (Sept 2016) Additional Review (unpublished); International Aid Transparency Initiative: ongoing work to meet publishing and transparency standards; SEQAS review of the Prosperity Fund Evaluation terms of reference.

projects and programmes. It ends with a proposal to add additional **assumptions** and a representation of **PF ‘families’ of projects** to the current Fund-level ToC.

3.1 The ‘upper half’ of the theory of change

The direct measurement of impacts (and outcomes) does not fall within the remit of the E&L’s evaluation of the PF, not least because these impacts are not expected to be realised within the five-year timeframe of the Fund and its evaluation. However, expected impacts (in the Fund-level ToC) have an ongoing framing and guiding effect on the ‘lower levels’ of the theory of change and, for this reason, are of interest to the evaluators and they could – potentially – be subject to change were the ToC ‘owners’ (i.e. PFMO, the Portfolio Board and programme leads) to consider they no longer represent the high-level strategy / objectives of the Fund.

The anticipated impacts of the PF, set out in the 2016 ToC, are higher rates of sustainable growth, greater investment flows to host countries, greater trade flows and growth-promoting relationships. The overall expected outcome for the PF is “*improved conditions for growth in partner (host) countries*”. This is stated clearly in both the 2015 Fund-level ToC narrative and revised diagram. The narrative provides more detail on what this entails, referring to reduced cost of doing business, improved productivity and improved opportunities for economic transformation.¹⁵ Some specific examples of ‘improved conditions for growth’ form the target outcomes of programmes (see Box 2 below).

Box 2. Example outcomes listed in programme Business Cases

As a result of more / improved infrastructure:

- improved access to services (for businesses and the labour force);
- greater connectivity between cities, individuals and businesses;
- improved productivity in the labour force and efficiency of production; and
- market growth in specific sectors e.g. green markets or energy.

As a result of investment in human capital, innovation and technology:

- inventive activity, innovation, research and development;
- the importing of codified and tacit knowledge from the rest of the world;
- improved / increased productivity and market performance;
- reduced transaction costs for information and exchange of goods and services;
- increased efficiency, competition, innovation and productivity (Digital Access); and
- Improved technology (internet access supply and demand) will encourage activity from the private sector.

As a result of investment in financial reform:

- increased investment into financial markets.

As a result of business environment reform

- increased business opportunities, and creation and growth of firms operating in the host country;
- higher and more diverse investment; greater aggregate productivity; and
- more competitive markets.

¹⁵ 2015 ToC narrative, p5

To enhance the definition of the PF outcome, now that [most of the] the programmes have been designed, we propose in Y1 to explore with the PFMO design team and other key stakeholders (e.g. other PFMO, the Portfolio Board, TAG) their vision of ‘sustainable growth’, increased trade, investments and partnerships.

The 2015 Fund-level ToC narrative refers also to an expected impact of “[greater] resilience of the international system to global challenges” generated by the outcome of “better integration [of host countries] with the global economy and closer adherence to international and domestic rules”. It is an aim which appears to be influencing the logic of programme ToCs, given that several (e.g. China, Mexico, Brazil, Global Trade) aim to provide technical assistance to align host country policy and strategy with international standards. The extent to which – through its portfolio of funded programmes – this is an aim of the Fund and; if it is; the rationale for its inclusion within the Fund-level ToC could be usefully explored with PF stakeholders.

3.2 Assumptions underpinning the theory of change

There are several assumptions underpinning, and critical to, the Fund-level ToC which are (except for first one)¹⁶ implicit in its narrative. The E&L team would suggest that these are brought to the fore and discussed as part of Y1 ToC analysis (e.g. in an updated ToC narrative), particularly as they are highly ‘risky’ assumptions, being based on weak or contradicting evidence.

The first assumption (A1 in Figure 2, section 4.1), which is represented in the diagram, is an assumption about the nature of the interventions; that the “*three-pillar understanding of sustainability runs through programming design – green, self-financing and inclusive*”. To test this assumption, the E&L team will review the **targeting** of programmes and projects (to see whether special measures have been taken to facilitate the likelihood of self-financing, to support environmental sustainability and/or to promote inclusion at the level of activity, output, outcome and impact). We will also assess any unexpected effects to understand whether these have had a positive (or negative) effect on these three pillars of sustainability. This aspect of the evaluation is covered in EQ4.

Second, and specifically, is the assumption that inclusion and equity are important priorities of the Fund. Though partly covered by the above-mentioned existing assumption, we would suggest that the following assumption (A2) be added to the ToC: *PF programmes and interventions have built in design approaches that address issues related to the economic empowerment of women and other excluded groups in line with the UK’s Gender Equality Act and the Prosperity Fund Gender and Inclusion Policy, Guidance and Inclusion Framework*¹⁷ as an assumption underlying the targeting within financed projects and applying to the activity to output and output to outcome pathways within projects and programmes. This assumption would be tested through EQ10.

Third is the assumption that secondary benefits, particularly to the UK, can be delivered in parallel to the primary purpose of inclusive economic development in host countries. This

¹⁶ The first (that the “three-pillar understanding of sustainability runs through programming design – green, self-financing and inclusive”) is explicit as it is represented in the diagram.

¹⁷ The wording of this assumption was developed jointly between the E&L Gender Advisor and the PFMO in line with the *Gender Approach Paper*.

assumption, though not explicitly identified as an assumption in the ToC, is nonetheless recognised by ToC 'owners' (as expressed in consultative workshops) as underpinning the PF and as reflecting what is unique and innovative about the Fund. It is also a risk to the Fund, given that the needs, wants and priorities of foreign economic and business actors does not always equate to nor complement the needs, wants and priorities of host populations and governments. We therefore recommend that the assumption (A3) that *there is an appropriate balance between primary and secondary benefit* be added to the Fund-level ToC, and it is tested by the evaluators through EQ6.

Fourth is a new assumption (A4) that *the Prosperity Fund brings additionality and a unique programmatic offering to the countries and sectors in which it works*. The ToC makes very clear the skills, services and opportunities that the UK can bring to host countries (to their mutual benefit), so this is an important assumption. There are different types of additionality that a donor can bring to beneficiaries, e.g. the 'topping up' existing funding to get it 'over the bar' to reach its objectives; the provision of unique services not available through other programmes / donors; the (sole) financing of an activity or product which has not previously been implemented; and the financing of 'triggers' – i.e. small interventions which catalyse larger-scale ones (attracting funding from other sources). The PF supports all these types of actions, but the extent to which the PF funding truly adds value will need to be investigated as part of programme level evaluations. We recommend that, given the objective of the PF to innovate and to produce benefits for host countries, this assumption should be added to the Fund-level ToC. There is no specific evaluation question covering this assumption so far, but it would be investigated as part of EQ7 which looks at assumptions more broadly.

Finally, we would propose that three additional assumptions which underpin expectations about how the Fund will be delivered, and which are at the forefront of the evaluation questions agreed with the PFMO, be acknowledged in a future 'updated narrative – or at least be tested as to their importance to the Fund-level ToC. These are:

- Human resource capacity and management needs at programme and fund level have been identified and measures have been put in place to support management (A5, testing EQ8, EQ9);
- Evidence on VfM is used to guide improvements to PF programmes and processes (A6 testing EQ9); and
- The PF is learning key lessons from its programmes and projects (A7 testing EQ11).

All three relate to the *processes* which underpin the ToC. These processes have been highlighted in the documentation (and throughout consultations and interactions with PF stakeholders) as key to implementation and to how PF implementers expect the Fund and programmes to be effective.

The PF Fund-level management and governance structures (comprising PFMO, the portfolio board and TAG) have been carefully constructed to manage the Fund's complexity (its geographic and thematic spread, varied implementing partners, stakeholders and objectives, etc.). Given the scale (and complexity) of the Fund and the subsequent management task, there is a risk that capacity challenges or gaps in governance and management will have a significant effect on the Fund's delivery and success. Therefore, it is an assumption which warrants highlighting and monitoring.

That the programme should provide value for money for the British taxpayer is a tenet of all Overseas Development Aid (ODA). It is therefore an important assumption to track and test.

As per assumption 6 listed above the E&L team will test whether PF implementers and management are using evidence of VfM to guide PF programming and delivery. Such testing will be a central part of the E&L assignment, as outlined in the *Value for Money (VfM) Approach Paper*.

Learning is a key design feature of the service being provided to the PFMO by the E&L team. However, if a 'learning service' is provided, but the PF stakeholders don't have the capacity or interest to absorb it, or the generation and communication of these lessons is not fit for purpose (i.e. not aligned to the stakeholders' ways of learning), then lessons will not be taken on board. This assumption should therefore be tested, not only to assess whether the Fund is 'learning' and *adapting* to lessons generated (as per its strategy), but also to monitor whether the learning support being provided by the E&L team is fit for purpose.

Given the importance of these assumptions, the E&L team would propose that the above discussion be added to the ToC narrative and that the assumptions listed be integrated into the ToC diagram. A proposed revised diagram is presented in section 4.1 and this proposed change further iterated in that same section (4.1).

3.3 The intermediate outcomes

The intermediate outcomes have the role of framing and guiding the content of the 'lower half' of the ToC¹⁸ and are also considered to be the conceptual foundation for the 'upper half' of the ToC, as they are considered to represent factors critical to growth in the middle income countries targeted by the Fund.¹⁹ In the 2016 ToC, they were amended to: investment in infrastructure; human capital, innovation and technology; trade; financial and economic reform; and ease of doing business.²⁰ This was done to better reflect the likely composition of the PF portfolio (given the quality and number of bids received in particular sectors).

As part of the portfolio analysis conducted for this Inception Phase of the E&L assignment, 16 programmes and their projects²¹ were mapped according to their activities, outputs, intermediate outcomes and outcomes and the extent to which their ToC values aligned with those of the Fund. The overall conclusion was that projects mapped well against the Fund-level ToC's intermediate outcomes, with some projects aiming to contribute to more than one intermediate outcome.

The analysis also found that some of the projects could be clustered into smaller groups or 'families' which were 'nested' within the causal pathways leading up to an intermediate

¹⁸ According to the 2015 ToC narrative they should "help orientate the activity that the Fund supports".

¹⁹ When first selected in 2015, this was done so to align with analysis in the Commission for Growth and Development *Growth Report* (2008) as to how middle-income countries could "*narrow the gap*" with high-income countries and maintain growth momentum. They comprised of investment in infrastructure and human capital (education and health); innovation and knowledge transfer; trade, financial and economic reform; policy and regulatory capacity and ease of doing business. See: Commission on Growth and Development (2008), *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, <https://openknowledge.worldbank.org/handle/10986/6507?show=full>

²⁰ This was following the completion of two of the three PF competitive funding windows, and as part of the work to develop the Monitoring, Reporting, Evaluation and Learning (MREL) Framework. See: PFMO (2016) *Cross-Government Prosperity Fund: Reviewing the Fund's Theory of Change – 'Options Paper'*, November 2016

²¹ The E&L team define a 'project' as an intervention forming part of a PF programme, which has its own separate budget line. Projects often have their own theory of change which are separate and 'nested' within the programme ToC and a logframe.

outcome (see section 3.4). It also identified commonalities between projects in relation to the type of activity / modality ('activity type') through which the project expected to achieve the intermediate outcomes (see section 3.5).

More information and discussion of the results of this portfolio analysis have been presented separately in an Annex to the E&L *Synthesis Approach Paper*.

3.4 'Families' of projects

The portfolio analysis identified five principal families, which map one-to-one against the Fund-level ToC intermediate outcomes and thus comprise:

1. Investment in Infrastructure
2. Human Capital, Innovation and Technology
3. Trade
4. Financial and Economic Reform
5. Ease of Doing Business

Within these five are ten sub-groups – 'nested families' – which share a common sectoral focus or a similar pathway to change, comprising:²²

1. *Investment in Infrastructure*
 1. Physical Infrastructure (F1)
 2. Future Cities (F2)
 3. Energy and Low Carbon (F3)
 4. Technology / Digital Access (F4)
2. *Human Capital, Innovation and Technology*
 5. Health and Education (F5)
 6. Innovation²³ (F6)
3. *Trade (F7)*

No nested family identified at this stage
4. *Financial Services (F8)*

No nested family identified, though we have named the 'family' 'Financial Services' to reflect that projects within the family have in common the development of this sector.
5. *Ease of Doing Business*
 7. Business Environment Reform (BER) (F9)
 8. Transparency and Anti-Corruption (F10)

More detailed analysis of these families, and the causal pathways within them, is provided in Annex 2 of this Paper. The E&L engagement team is currently speaking to all programme teams to validate the E&L team's categorisation by family. Teams have been asked the following question:

In using 'families' we hope to support programmes to both feed upwards into the Fund and learn laterally with other programmes. Your programme/projects

²² A description of the methods used and the assumption underpinning this analysis is provided in Annex 1 to the E&L *Synthesis Approach Paper*.

²³ This comprises various projects which already belong to a 'family', but which cluster together because they involve the piloting / demonstration of innovative products.

have been placed in X family along with the likes of X. Does this seem like a useful and correct estimation?

So far, programme teams have tended to agree with the categorisation; however, the consultation process is only mid-way through completion. Once the results are received and compiled, the analysis of families will be updated to reflect the programme team's own categorisation. This may entail one or two additional families being added, or some families being renamed.

Since the families represent different causal pathways through which PF projects are expected to contribute to Fund intermediate outcomes, outcomes and impacts, they provide a useful 'lens' through which to investigate and evaluate the Fund. 'Family-level evaluations' will be conducted using evidence from a sample of projects per 'family' to investigate results, factors contributing to or hindering results, and lessons.²⁴

Given the utility of the 'families' in providing more detail on the composition of the 'lower half' of the Fund-level ToC (and in framing one of the evaluation products), the E&L team propose that the 'families' be integrated into the ToC diagram (see the proposed revised diagram in section 4.1).

3.5 Prosperity Fund activity types

Eight types of 'activity' or intervention were identified, through the initial portfolio review, as characterising the type of support provided through PF projects. These are:

1. technical assistance (TA) for the reform or design of regulations, laws and strategies,
2. capacity building in support of the implementation of regulations, laws and strategies,
3. research and advocacy (e.g. using diplomatic and other channels),
4. TA for the design of tenders,
5. market development (through innovation and piloting with a view to scale-up),
6. convening and coordination to build relationships,
7. provision of capital (for running costs, insurance or risk limitation), and
8. concessional / premium financing.

More information on how these activities cluster within the five main 'families' or 'intermediate outcomes' is provided in the Annex to the E&L *Synthesis Approach Paper*. A summary is provided in Annex 3 of this present ToC Paper.

3.6 Prosperity Fund outputs

As it has been possible to identify common activity types and causal pathways, so it is expected that in Y1, as more information about programmes and projects is finalised and as programme level ToCs are baselined, it will be possible to identify common outputs which are

²⁴ In keeping with the three principal evaluation questions – see Annex 1 of this ToC Paper.

typical of the Prosperity Fund and which may therefore warrant inclusion within the Fund-level ToC. At this stage, though, there is insufficient evidence upon which to propose Fund outputs.

3.7 Synergies between projects and intermediate outcomes

In principle, there is considerable synergy between the various elements of the PF. The design of the PF was based on a series of analyses which identified several key strategic areas important to the development of pro-poor, sustainable economic development in middle-income countries – for example the importance of good infrastructure planning, and of reforms in the business environment.

However, in practice, programmes have been selected for funding on the basis of the strength of the proposals received. Whilst it is desirable that only the strongest proposals are funded, this approach has been at the expense of synergies between projects in a single country, and of synergies between projects of a similar type in different countries.

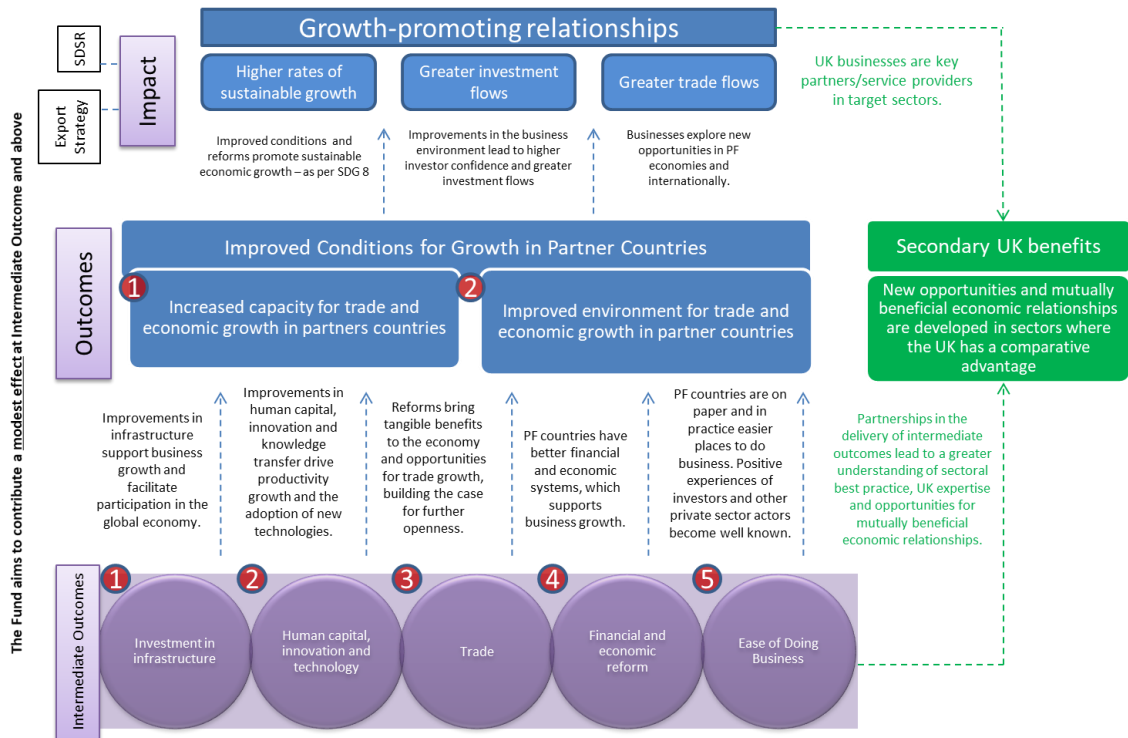
The desk-based portfolio analysis has identified that there is potential for synergies between projects in some cases: in several countries, for example, there would be great benefit in several intervention streams focusing on the same areas of that country, realising benefits and overlaps in terms of influence, operational structures and cumulative impact.

It is clear from the E&L engagement with Programme managers that there is a considerable willingness to look for synergies; creating opportunities for enhancing intermediate outcomes through such efforts. At the programme team event in London in December 2017 for example, there were many discussions of potential synergies and areas of common interest for joint learning. Programme teams are enthusiastic about collaboration but will need support from vehicles like the workshop to facilitate synergies being identified and realised.

3.8 Proposal for additions to the Fund theory of change at the end of inception

As outlined in sections 3.2 and 3.4, this Paper proposes that the current Fund-level ToC narrative is amended to include the narrative outlined in 3.2 and that the ToC diagram is revised to incorporate: (i) the assumptions listed in 3.2 and (ii) the ToC families. Figure 2 contains the proposed revised diagram, which is produced in larger form in Annex 4.

PROSPERITY FUND THEORY OF CHANGE



Three-pillar understanding of sustainability runs through programming design – green, self-financing and inclusive

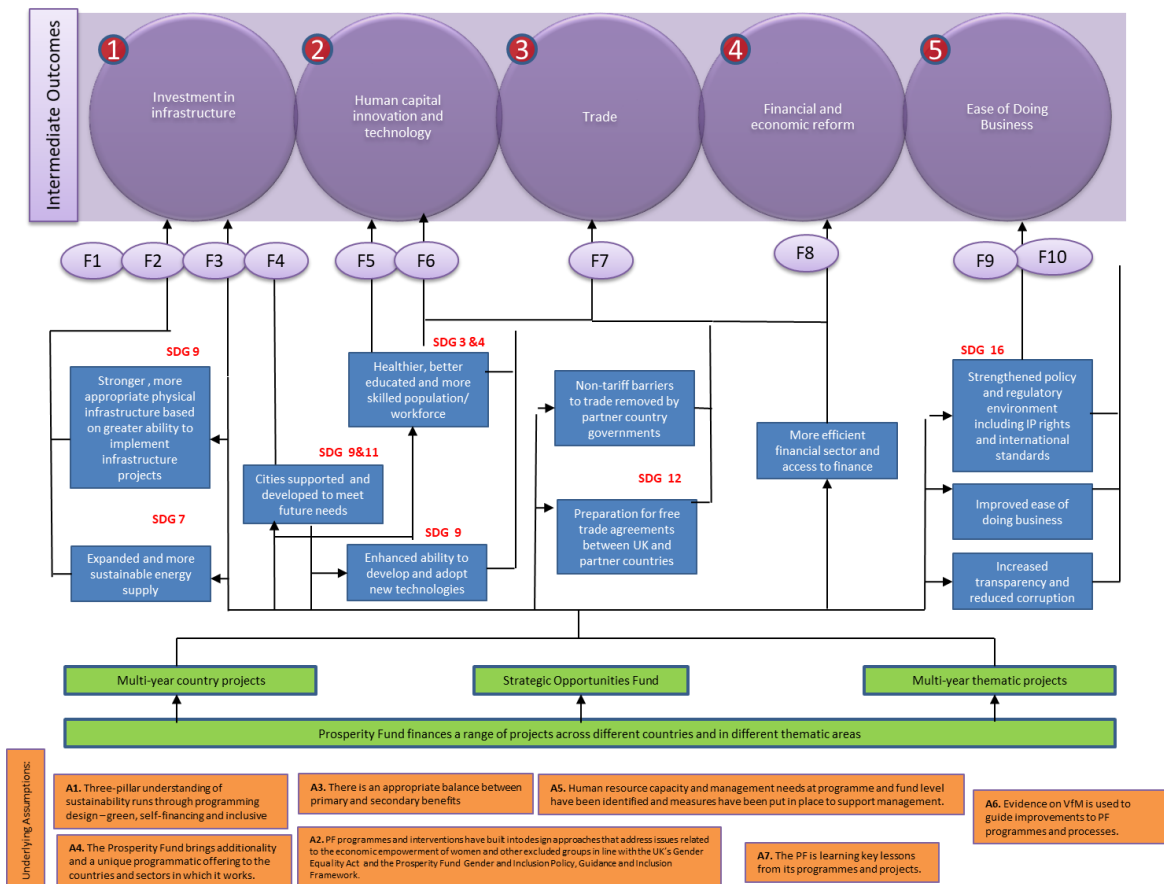


Figure 2: Proposed revised Prosperity Fund theory of change, March 2018

4. Next steps: Annual theory of change review

To support adaptive programming with the Prosperity Fund and to track whether the ToC is still relevant to the Fund's (evolving) strategy and measurable for the evaluators, the E&L team propose that a review of the ToC process is undertaken annually from April to June.

The annual ToC review will focus on causal pathways and assumptions. During the first year of evaluation 'families' of programmes or projects will be reviewed, through interaction with the PMs and the programme evaluability assessments; then, as programme results emerge, evaluations that focus on different 'families' may be undertaken, providing evaluative learning for the Fund-level ToC, and valuable cross-programme learning opportunities. The *Annual Fund Evaluation* will make recommendations for any updates to the ToC.²⁵

Box 3. Coordinating the Annual ToC Review with the M&R contractors

Several sources of evidence will inform any proposals for changes to the Fund ToC, including information from Prospero (the M&R data repository). In Prospero, programme teams will align their own projects and programmes with the Fund's impacts and outcomes. In mapping their project and programme indicators to the Fund impact and outcome indicators they are identifying possible causal pathways from programme and project up to Fund impacts and outcomes (for more discussion on this, see the M&R contractor's *Theory of Change Review Paper*). Should the E&L team find (from the M&R's data) that programmes are tending to cluster around some causal pathways, but not others, we may draw conclusions that some causal pathways are more significant than others and this patterning may warrant an adjustment to the Fund ToC.

We will also consult with the M&R contractors to see whether they consider that there might usefully be any changes to the ToC made (based on their regular interactions with the ToC).

4.1 Areas of focus for the review

The ToC review will be aligned with other evaluation activities, including the *Annual Fund Evaluation* which will provide interim findings against the final evaluation questions (see Annex 1). However, there will be areas of focus specific to the ToC review which will guide the data collection and analysis activities feeding into it, as follows:

- **PF stakeholders perspectives:** whether they consider the ToC fit for purpose.
- **Implications of (new) evidence:** whether key elements of the ToC are confirmed by evidence emerging through the evaluations.
- **Changes in context:** Whether any changes in PF context within the previous year have impacted upon / influenced its strategy and expected results.
- **Alignment between programmes and the Fund:** Whether programmes (still) 'fit' with the Fund ToC, particularly its intermediate outcomes and the Fund-level ToC families.
- **Patterns emerging from the M&R system:** How programmes are mapping themselves in the *Prospero* system, and whether this can tell us something about programme's expected causal pathways, which should be taken into account in a revised ToC.

²⁵ The process for this review is described in further detail in section 3.2 of the *Prosperity Fund Evaluation Framework*.

4.2 Outputs of the ToC review

At the close of the review period, the following would be identified:

- **Evidence supporting contribution analysis:** in the *Prosperity Fund Evaluation Framework*, the E&L team have proposed that to answer several of the EQs (EQ1, EQ5, EQ7, EQ8), contribution analysis (CA) is appropriate. The ToC reviews will be one of the methods through which the ToC assumptions are tested as part of CA.
- **Areas for ToC amendment / further elaboration** based on evidence about how the Fund is currently being implemented or is expected to be implemented in the remaining years of implementation. It is unlikely that proposals will affect the impacts of the ToC, as they are fixed strategically; but proposals for change could feasibly include proposals to amend or provide further detail on outcomes; proposals to amend the intermediate outcomes (e.g. to reflect new intermediate outcomes which the Fund is supporting or to reflect the increasing importance of some intermediate outcomes above others); proposals for further elaboration of the 'lower half' of the Fund (e.g. outputs); or proposals to add, edit or delete assumptions which are (no longer) found to be relevant.
- **Gaps in PF stakeholders and/or the E&L team's understanding** which warrant investigation through evaluation. Such findings would then inform the design of the following year's evaluations as part of the annual planning process, captured in the *Annual Evaluation Approach Paper*.
- **ToC review priorities** for the next reporting period in line with planning and implementation priorities.

It is also possible that the ToC review process will lead to the **identification of recommendations for changes to the M&R contractor's set of Fund-level indicators**. As the M&R contractors will be a key stakeholder in the ToC review process (see below), any process of providing recommendations would be managed as early on as possible within the review.

It is also possible that the review may identify some **mis-alignments between programme ToCs and the Fund-level ToC** (e.g. programmes working towards outcomes and impacts which do not align with Fund outcomes and impacts) which indicate that programmes are not being implemented in line with the Fund. Where this is the case, the E&L team will flag this finding with the PFMO who will decide whether the finding warrants action from the PFMO (e.g. to advise on course corrections) and/or further investigation by the E&L team (i.e. an evaluation).

4.3 Principles of the review

The E&L team propose two main principles to guide the ToC reviews.

- **Ownership by PF stakeholders:** To enhance the active use of the ToC, PF managers and implementers will be engaged to set priorities and questions to be tested through the evaluation. To encourage this active engagement, the E&L team propose to focus in Y1 and possibly Y2 on using the evaluation evidence to develop; with ToC 'owners' (i.e. PFMO, Portfolio Board and programme leads); the lower parts or 'early stages' of the ToC – e.g. the pathways from activities to output, processes / ways of working, partnerships – and the testing of underlying assumptions. The PFMO could well prioritise these as the focus for data gathering Y1 – Y2. At the annual review, there will be an analysis and management level review of the insights and, if necessary, the ToC will be adjusted

alongside any programme adaptations. New priorities will then be set for Y2 – Y3, which we expect to look forward to how outputs are intended to lead to intermediate outcomes, how monitoring data gathered on emerging outcomes can be evaluated and how output to outcome assumptions will (continue to be) tested.

- **Non-burdensome process:** we aim to work with PFMO to see how the review process can best be aligned with existing administrative and programming tasks / timelines to avoid burdens on stakeholders. The precise frequency and timing of the ToC review cycle will be likely to be determined by:
 - The timing of the management cycles of programme adaptation (the review should ideally be integrated into these timings);
 - The amount of time needed for change to emerge and for updates to be useful: one year might be the minimum timeframe, but results may equally emerge faster or take longer in different programmes, so more frequent reviewing of the ToC may also be useful; and
 - Resource availability: given that it is crucial that PF stakeholders (ToC ‘owners’) participate in ToC reviews, staff availability will be a key determinant.

5. Annexes

Annex 1: Final Evaluation Questions

Principal question 1: What has been or is likely to be achieved as a result of the PF?

1. What evidence is there that the Prosperity Fund is likely to contribute to the intended outputs and intermediate outcomes in the ToC, as well as any unintended or unexpected effects?
2. Which types of interventions, sectors and country settings have been more and less successful in contributing to the achievement of primary benefits?
3. Which types of interventions, sectors and country settings have been more and less successful in contributing to the achievement of secondary benefits?
4. What evidence is there that Prosperity Fund interventions will be sustainable and ensure environmental sustainability, will be self-financing and lead to inclusive growth that reduces inequality?

Principal question 2: What factors have contributed to or hindered these achievements?

5. What factors have contributed to the achievement of primary benefits and secondary benefits?
6. How has the balance and relationship between primary and secondary benefits across the portfolio influenced the achievement of results?
7. Which assumptions and the causal pathways outlined in the ToC remain valid, which have been adapted and what refinements need to be made?
8. To what extent is the institutional governance set-up of the Prosperity Fund more or less effective in achieving i) primary benefits; ii) secondary benefits; iii) other results?
9. What types of approaches, governance and management arrangements have been more and less effective for achieving results and demonstrate good approaches to supporting inclusive growth and value for money (VfM)?
10. To what extent have the Prosperity Fund interventions contributed to results that support gender equality, women's economic empowerment and social inclusion in line with the UK Gender Equality Act and the Prosperity Fund Policy and Guidance and the Prosperity Fund Gender and Inclusion Framework?

Principal question 3: What can be learned from the PF experience to date to improve ongoing and future programming?

11. How is the Prosperity Fund learning and why is action on this learning happening more and less successfully?
12. Which Prosperity Fund lessons in translating outputs into intermediate outcomes are sufficiently robust for wider learning?

Annex 2: Analysis of the causal pathways within families

Infrastructure

PF projects falling within the ‘infrastructure’ family expect to attract capital for infrastructure in several areas including:

- energy (India, Indonesia, SE Asia Clean Energy / Low Carbon);
- rail and transportation (Colombia, AIIB Special Fund);
- sustainable urbanisation (Colombia, India, Mexico, Brazil, AIIB Special Fund, SE Asia Clean Energy / Low Carbon);
- green technology (China, Mexico, Brazil) and
- water, sanitation and hygiene (AIIB Special Fund).

They also aim to increase investment in higher quality infrastructure projects and strengthen infrastructure planning capacity to help countries effectively prioritise their infrastructure investment / create project pipelines that incentivise the private sector to bid.

Analysis so far suggests that the ‘future cities’ and ‘low carbon and energy’ themes fit best within the ‘investment in infrastructure’ grouping of projects:

- For ‘future cities’, this is because several projects (see Mexico and Brazil) are expected to catalyse investment in urban infrastructure / services. However, where the project expects instead, or in addition, to contribute to ongoing innovation / creating a culture of innovation (see India) then it appears to be (also) contributing to the ‘human capital, innovation and technology’ intermediate outcome.
- For ‘low carbon and energy’, whilst several projects are clearly working to the intermediate outcome of ‘investment in infrastructure’ and the outcome of ‘improved productivity and efficiency’, several projects (see China, Mexico, Brazil) have as their focus a switch to a low carbon economy and low-carbon market growth (with its associated environmental benefits) as their expected impact *rather than more general growth*. Whether this distinction warrants a separate causal pathway would need to be investigated as part of the evaluation, specifically through ToC workshops with programme and project leads. It is also worth noting here that the Indonesia Prosperity Fund Bilateral Programme also has a slightly different ToC outlined in its Business Case, with a focus on energy access and (particularly) the benefits that this can bring to women. For this reason, the programme may be contributing to the ‘human capital, innovation and technology’ intermediate outcome either solely, or as well as to, infrastructure.

Human capital, innovation and technology

Intermediate outcome 2 (‘human capital, innovation and technology’) evolved from the original 2015 Fund-level ToC to the 2016 revision. Initially, human capital was paired with infrastructure and innovation with knowledge transfer. The rationale for bringing them together with technology was to represent “areas of capacity which are required to promote conditions for growth”.²⁶

²⁶ PFMO (2016) Proposed Revised Theory of Change.

Within the scope of the PF, 'human capital' refers to education and health. The 2015 ToC referred to (though did not limit the Fund to) low carbon and 'smart city' innovation (which we have classified above under infrastructure), but the 2016 supplementary narrative²⁷ underlines the linkages between city development and infrastructure and makes clear that innovation is implied more broadly to cover inventive activity, innovation, research and development, including the importing of codified and tacit knowledge from the rest of the world.

Our portfolio analysis suggested that one programme (India) has projects aimed at contributing to the development of human capital. This comprises two projects aimed at upskilling the labour force (through an apprenticeship scheme) and building capacity amongst Indian SMEs. A similar project (to build the capacity of SMEs) is also being supported in Brazil. This low representation for human capital projects is, in part, because the Business Cases for the Global Education and Better Health programmes were not ready for review at the time of the portfolio analysis. These projects were expected to lead to the outcomes of improved productivity and market performance, which would be 'conditions for growth'.

Two programmes (Colombia and Digital Access) had innovation components but, again, it is likely that this will increase once the Future Cities programme has been mapped. In these projects it is expected that:

- The intermediate outcome of innovation in agriculture will result in increased productivity (should the innovation be scaled up) (Colombia);
- The intermediate outcome of innovation in business access models will lead to reduced transaction costs for information and exchange of goods and services and increased efficiency, competition, innovation and productivity (Digital Access); and
- Improved technology (internet access supply and demand) will encourage activity from the private sector.

Trade

The programmes contributing to the intermediate outcome of trade reform share similarities with programmes contributing to improvements in ease of doing business. However, the portfolio analysis has found that, unlike the projects contributing to ease of doing business, projects contributing to trade reform focus on technical assistance for regulatory change and they seek to achieve slightly different outcomes and secondary benefits.

The initial (inception) portfolio analysis has not proposed nested families for 'trade', but it has identified two main causal pathways which (should evidence support it) might be classified as nested families, post-testing in Y1. The two pathways are:

- reform that removes non-tariff barriers to trade; and
- reform that supports progress towards wider reforms and new free trade agreements.

Two programmes have projects falling within the 'trade' family: the Global Trade programme and the Brazil programme:

- Within the Global Trade programme, the activity/output of 'trade reform' comprises regulatory reform (including the adoption of international standards), the streamlining customs procedures, reducing corruption at seaports, increasing political commitment and

²⁷ PFMO (2016) Proposed Revised Theory of Change.

enhancing trade negotiation capacity. The projects are expected to contribute to the outcomes of: “*increased openness to international trade*”, “*strategic integration with the global economy*”, and a “*better business climate*” where ‘better’ is judged by alignment to international standards.

- The Brazil programme includes three trade-focussed projects, of which only one (technical assistance to build capacity to align Brazilian trade policy with international standards) fits with the causal pathways defined under the Global Trade programme. The other two (the piloting of electronic systems to improve port efficiencies and capacity-building for SMEs) appear to be, instead, contributing to innovation and human capital investment respectively (indeed, the portfolio analysis also mapped the project onto this intermediate outcome).

Financial and economic reform

The initial (inception) portfolio analysis has no nested family, though we have named the family ‘financial services’ (instead of financial and economic reform as per the intermediate outcome), because the family comprises projects which aim to support the development of financial services in host countries.

There is some notable variation within the family in terms of causal pathways, which might indicate the need to highlight nested families. The group appears to involve:

- projects (the majority) which focus on policy development (and thus the actions of government actors in reform);
- other projects which focus on strengthening specific financial markets and thus whilst they could be said to be contributing to ‘financial reform’, also seem to be contributing towards innovation;²⁸

Projects within the ‘financial services’ family expect to follow two main causal pathways:

- Greater investment into the financial markets, drives growth; and
- Increased access to financial services leads to more inclusive growth.

Some of these projects, however, follow quite distinct causal pathways, which, again, might warrant further categorisation and separation within the Fund-level ToC.

- *Catalysing market growth*: In Mexico and Colombia, the PF is expected to support the strengthening of financial markets with a view to improving financial inclusion in key markets such as pensions and insurance, where there is a lack of inclusivity or market development (Mexico – pensions, insurance, capital markets; Colombia – agri-insurance).
- *Green Financing*: Supporting capacity and policy around Green Finance, which is being promoted through a combination of activities, including notably deploying technical assistance to support policies around green finance and conducting capacity building. In Brazil the focus is specifically on supporting the creation of a Green Development Bank that is expected to lead to greater volumes of Green Financing, and growth.
- *Disaster Management through Insurance*: The Global Insurance Facility proposes

²⁸ These anomalies of causal pathway warrant further discussion and exploration in Y1. There is even a possibility that – should these not cluster well with the existing intermediate outcomes – they might warrant a new or nested pathway.

supporting an insurance market aimed at supporting states to plan for disasters using insurance, through creating a hub of expertise. This in turn will support countries to be able to manage disasters, with less impact on growth and quality of life.

Ease of doing business

Projects contributing to this intermediate outcome are those which seek to improve the business environment (sometimes referred to as 'investment climate'). Business environment reform (BER) programmes (generally, not specific to PF) typically aim to:

- Influence business-related policy and legal reforms, to reduce the direct opportunity cost of doing business without removing protections necessary for human health and safety of the environment.
- Strengthen institutions, to ensure that business environment reforms are properly designed, implemented and enforced in a transparent and equitable manner.
- Create a market-oriented economy where the private sector (in the form of small or large firms) can operate efficiently and effectively without unnecessary hindrance.

The specific examples of business reform or 'ease of doing business' (i.e. the specific examples of this intermediate outcome) anticipated by programmes (as outlined in Business Cases) include:

- Improvements to the quality, transparency and efficiency of business policies,
- Reductions in operational costs (driven by regulation) for businesses,
- Improvements in the application of and strengthened functioning of rule of law for business operations, and
- A 'levelling' of the 'playing field' for national and international business).

Annex 3: Activity types per ‘family’

Activity types within the ‘infrastructure’ family

The projects within this family are diverse in terms of the type of activity and output envisaged. There are some commonalities or similarities between projects, but due to the large number of projects involved, it renders it quite complex to develop an aggregate ToC from output to intermediate outcome. The causal pathways comprise:²⁹

- Technical assistance to support strategy and policy development (Brazil) in addition to capacity building (Colombia, India, Mexico) and supported by research and analysis (India, China);
- Technical assistance (in the tendering process) to develop pipelines of projects for which funding can be attracted (Colombia, AIIB Special Fund, India, China, Mexico, NIIF);
- Piloting of projects to test innovation, which can then be scaled up (China, Brazil, Indonesia, Global Infrastructure programme);
- The brokering of relationships to generate commercial venture collaborations (India, E Asia Clean Energy / Low Carbon) or to cascade best practice (China, Indonesia); and
- The provision of capital to mitigate risk for private investors, thus attracting finance (NIIF).

Each of these activity types have as aim to catalyse investment in infrastructure by seeking to establish investment-enabling environments / capacity: a permissive regulatory environment, plans and pipelines, proven models for scale-up and investor interest and capacity.

Activity types within the human capital, innovation and technology families

The projects contributing to human capital, innovation and technology comprise the following activities:

- Strategy development (Digital Access, Brazil)
- Capacity building (India, Digital Access, Brazil)
- Market development / innovation (Colombia, Digital Access).

Activity types within the ‘trade’ family

Both the Brazil trade projects and projects within the Global Trade programme seek to create reform through multi-varied technical assistance (including analysis, capacity building, influencing and advocacy) to create high level support and political will for regulatory reforms and openness to trade.

Activity types within the ‘financial services’ family

All ‘financial services’ projects involve either:

- Technical assistance,
- Research and innovation support,
- Capacity building,
- Convening links with policy-makers, or
- A combination of the three.

Each has an element of linking to the expertise based in the British financial sector.

²⁹ Based on Business Case analysis without verification (at this stage) with programme managers.

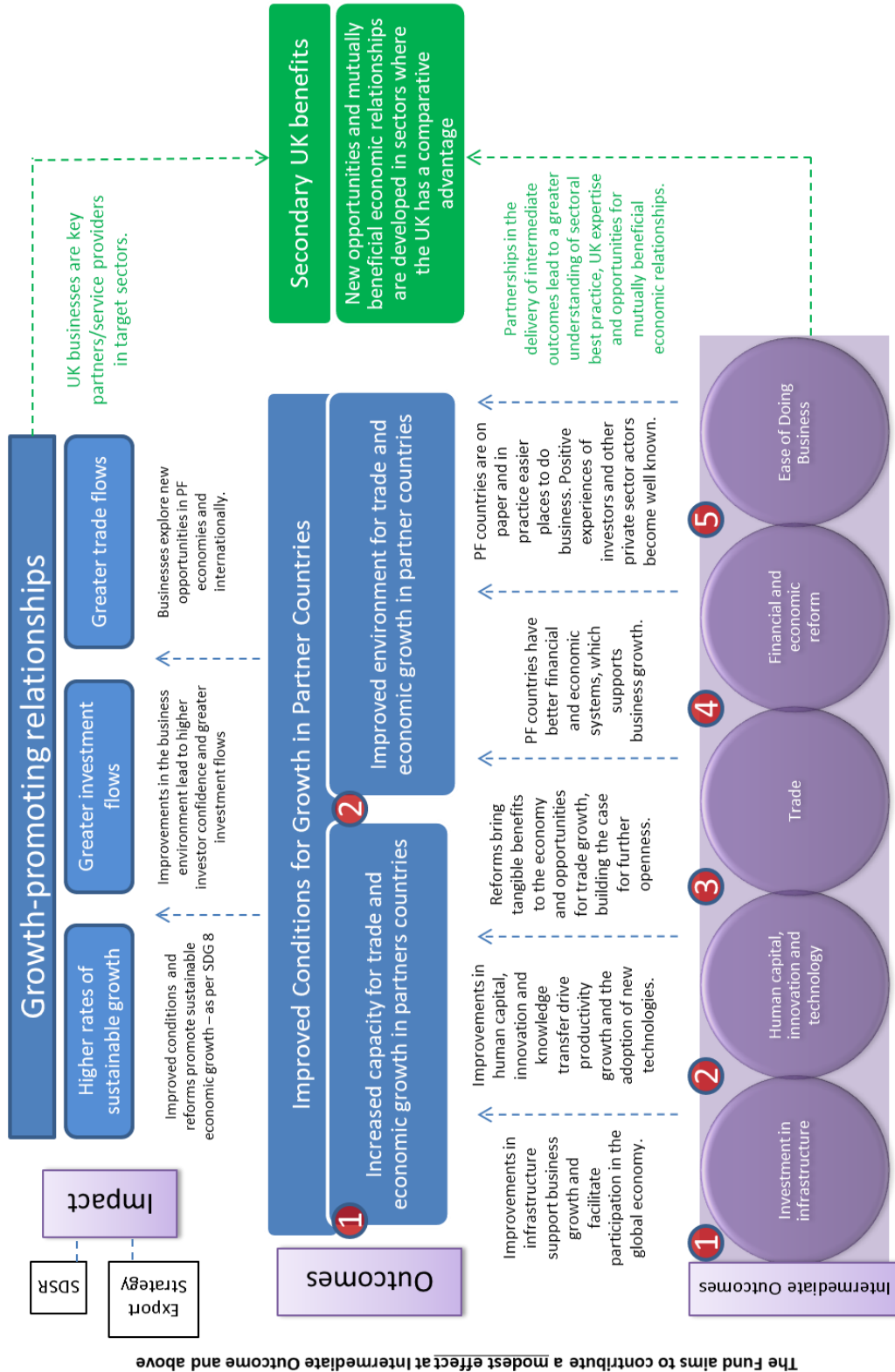
Activity types within the 'BER' family

Business Environment Reform (BER) activities comprise (broadly):

- Capacity-building to support the introduction of new or strengthening of existing BER-related policies (Indonesia) e.g. in health and safety and intellectual property (SE Asia Trade and Economic Reform), competition policy (Colombia, China) and tax and trade regulation (India);
- Research, capacity-building and convening to strengthen courts (China); and
- Analytics and technical assistance to support policy and strategy development (Global Business Environment).

Annex 4: Proposed revised theory of change – larger version

PROSPERITY FUND THEORY OF CHANGE



Three-pillar understanding of sustainability runs through programming design – green, self-financing and inclusive

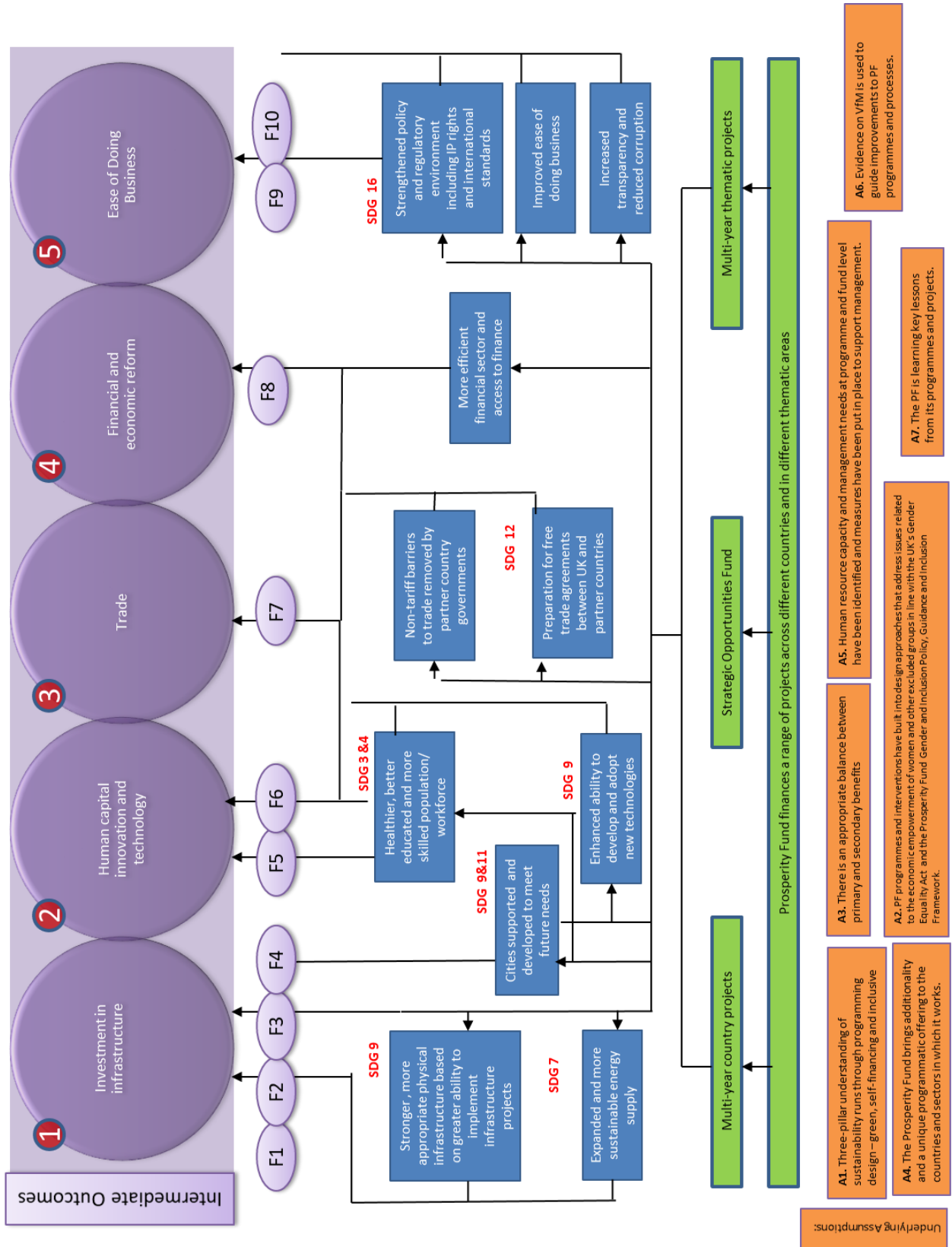


Figure 2. (repeated) Proposed revised Prosperity Fund theory of change, March 2018