Development impact portfolio score for CDC
Output
Development Impact Grid incentivises CDC to make investments in harder geographies and in sectors which have the highest propensity to create jobs. It has been a useful tool to shift CDC's investment portfolio to more impactful investments.
Individual investments have a Development Impact score ranging from 1 to 4 depending on where they fall on the Development Impact grid. The DI portfolio score is the weighted average (by investment £) of the Development Impact Grid score (between 1 and 4) across CDC's investments that have reached financial close during the preceding three years (on a calendar year basis).
The DI Grid is a pre-investment screening tool that CDC has developed to assess the predicted development impact potential of CDC investments. It scores an investment based on two factors: the difficulty of the geography where the investment is made (x-axis) and the propensity of the business sector in which it is made to generate employment (y-axis).
• Geographies (x axis) is divided into four categories (A to D): Investment Difficulty of Country- assessed (except India) with regard to: (i) market size; (ii) income level; (iii) ability to access finance; and (iv) the ease of doing business (using WB Doing Business rankings). For investments in India, each state is assessed with regard to GDP per capita. For a list of countries within the four categories please see the <u>CDC methodology list</u> .
<ul> <li>Sectors (y-axis) is divided into three categories (low, medium and high). Propensity for Investment to Generate Employment- the propensity of each business sector to generate employment was assessed with regard to: (i) the potential to create employment directly, measured by the employment (both skilled and unskilled) to capital ratio; (ii) the potential to create employment through backward linkages in the supply chain, measured by the local procurement to capital ratio, and; (iii) the potential for investment into essential infrastructure to remove business constraints and build an environment for jobs. For a list of sectors by categories please see the <u>CDC methodology list</u>.</li> </ul>

	Figure A: The Development Impact Grid							
	enerate	High						4
	sector to g	edium						3
	Propensity of emj	Low						2
	_		D	C	B	А		J
			Invest	ment difficult	v of country	nr stoto		
			mvesti		y of country (	of state		
Data calculations	Scoring - once an investment is located in the appropriate space on the grid, by reference to geography and sector, it receives a particular score. The scores range from 1 to 4. In the DI Grid in figure A the areas scoring different values are shown in contrasting colours.							
	In the case of investments that benefit multiple geographies and/or multiple sectors, a blended score is calculated using a weighted average based on the amount of the investment allocated to a certain geography and sector.							
Data sources	CDC investment portfolio database							
Reporting roles	CDC reports on the average scores on a 3-year rolling average and any breakdowns by individual investments if needed.							
Worked example								
Baseline data	Baseline is the 3-year rolling average for calendar years 2014-2016 The sectors and geographical categories are listed below.							
	Table 1 - business sector categories							
	Low Business Servi Communication Financial Servi Mineral Extract Trade*	ices n ices* tion	Ag Fc Ma Tr Tr Ut	edium gricultural crop prestry/Fisherie eat/Livestock ade* ansport ilities & Power	\$ 95 *	High Construction Food Proces Manufacturin Heavy) Microfinance Public Servic Education) Renewables <sup>a</sup> Textiles	sing g (Light & * es (incl. H	lealth &

Table 2: Geographie	nents e <b>s categories (inc</b>	luding Indian state	es)		
D	С	В	Α		
Mauritius! Morocco South Africa Φ! Tunisia	Bangladesh* Botswana! Cape Verde Egypt † Ghana Maldives Namibia Nigeria* Sri Lanka †Φ!	Algeria† Angola* Bhutan Equatorial Guinea* Ethiopia* Gabon Kenya Nepal* Pakistan* Rwanda* Senegal Sudan* Swaziland Tanzania* Uganda* Zambia*	Afghanistan* Benin Burkina Faso* Burundi* Cameroon* CAR* Chad* Comoros* DRC* Congo, Rep of Cote d'Ivoire Djibouti* Eritrea* The Gambia Guinea* Guinea- Bissau* Lesotho*	Liberia* Libya† Madagasca Malawi* Mali* Mauritania Mozambiqu Myanmar* Niger* Sierra Leon Sao Tome & Principe Somalia* South Suda Togo* Zimbabwe	
Andaman & Nicobar Islands Φ Chandigarh Φ Delhi Φ Goa Φ Gujarat Φ Haryana Φ Maharashtra Φ Pudicherry Φ Punjab Φ Tamil Nadu Φ Uttarakhand Φ	Andhra Pradesh Himachal Pradesh Karnataka Kerala n regarding investm Investment Policy 2	Arunachal Pradesh Meghalaya Mizoram Sikkim Sikkim ents in Botswana, M 2012-16, Appendix 2	Assam Bihar Chhattisgarh Jammu &Kashm Jharkhand Madhya Prades Manipur Nagaland Odisha Rajasthan Tripura Uttar Pradesh West Bengal lauritius, Sri Lanka	hir h a and South A	
* Φ and †, see table 3 <b>Table 3- Adjustment</b> to adjustment depend	on adjustments to classificatio ling on the busines	n. Certain business ss or geography.	s sector categoriz	zations are su	
deal type	Classification	Countries/States	or circumstance	S	
Financial Services (other than Microfinance)	High	All countries excep Indian states exce marked Φ)	ot South Africa & S pt those in Catego	Sri Lanka All ory D (exception	
Microfinance	Low	South Africa			
Power (other than Renewable Energy)	High	All Category A, B o Lanka, Algeria, Lib Indian states in Ca	or C countries exc oya (exceptions m ategory A, B or C	ept Egypt, Sri arked † ) All	
Renewable Energy	High	All countries All Ind	dian states		
Mobile	High	All countries marke	ed *		

	Trade	High Medium Low	If >60% of procurement is local (from country or from other country of higher or equal ID score) If <60%, >20% of procurement is local If <20% of procurement is local				
	Passive replacement capital	Low	Investments which result in no new capital to the company and where CDC has neither a board seat nor is party to a shareholders (or similar) agreement that permits CDC to better align the company with CDC's developmental mission.				
Return Format	A numerical score from 1 to 4. Weighted (by investment £) average of the Development Impact Grid score (between 1 and 4) across CDC's investments that have reached financial close during the preceding three calendar years.						
Data dis- aggregation	Not applicable						
Data availability	Annually (by 30 April each year)						
Time period/ lag	Time period 36 months. Time lag 4 months (the data will be available within 4 months after the end of each calendar year, by 30 April each year).						
Quality assurance measures	DI Grid scores are externally verified.						
Interpretation of results	The DI Grid is an ex-ante screening tool that CDC has developed to assess the predicted development impact potential of CDC investments.						
Data quality	There may be possible revisions to the sectors and/or geographies lists in the future as a result of economic data and DFID's strategic priorities (see below data issues).						
Data issues	The DI grid score predicts Development Impact potential at the time the investment decision is taken. No investment screening tool is perfect and CDC and DFID are also committed tracking actual results over time and using post- investment impact data to refine the DI grid.						
	There is still emerging evidence on which sectors have the highest propensity to create jobs and are most transformative. In addition, improvements to measuring jobs are still developing, and hard geographies may shift over time. The methodology will be reviewed and updated if changes are made.						
Additional comments	n/a						
Variations from standard methodology	See Data issues on possible updates to the sectors and/or geographies list.						