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Report

New frontiers for evaluation in an era of market-oriented development

Monday 20 – Wednesday 22 July 2015 | WP1411

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Over the past few decades there have been dramatic shifts in the way in which middle income and low income countries have achieved economic growth and political and social change. These changes have been driven by new contexts, new actors and new ideas, in which market-oriented development have become increasingly prominent. Traditional divisions between international aid and private sector investment have begun to breakdown, with the emergence of new forms of social and environmentally responsible investments and modalities.

Evaluation practice, shaped by a dominant public sector paradigm, has not kept pace. This raises important questions about the role of evaluation, both in understanding the impact of new activities on society, as well as in supporting democratic accountability to citizens. As part of the International Year of Evaluation 2015, this Wilton Park convened meeting gave evaluation professionals, development partners, and investors an open forum to review recent evaluation experience, debate evaluation governance issues, and probe the methodological questions brought about by the market-based revolution. The objectives of the meeting were to:

- Define the current challenges to effective monitoring and evaluation of market-oriented development initiatives, and in particular explore the utility of evaluation to new actors and in new contexts;
- Debate the role of evaluators and investors in supporting greater democratic accountability for social and environmental impact, and transformational change;
- Draw lessons from the evaluation methodologies being used by accounting firms, management consultants, and other private sector actors;
- Harness the innovative approaches of philanthropic foundations and others, for example in identifying social and environmental impact;
- Create an enhanced network of individuals and organisations interested in tackling the challenge of monitoring and evaluating market-oriented development from national and international organisations, philanthropic foundations and others.

Key points

"While investors presently draw on a range of advisors and services, there is an underdeveloped

- Global trends suggest a number of major challenges are being faced, including: a growing inequality of wealth, voice and power; an accelerating challenge to achieve sustainability alongside growing consumer demand and within planetary boundaries; and a need to build more inclusive and secure societies that are better able to deal with conflict, terrorism, epidemics or other threats.

demand / supply relationship for data and evidence on social impact, including who pays for it"

- The old aid narrative, founded on a north-south model of cooperation, is shattered. Global problems extend beyond states, with a greater level of complexity and interconnectedness. The political landscape has shifted, with an emerging multi-polar world beyond traditional powers. New actors and alliances exist, and are increasingly possible with new technology and hybrid arrangements with the private sector and others.
- Alternative resource flows and investments dwarf international aid, with an emerging group of investors who are developing products that have a social and/or environmental conscience alongside a financial return. This is a growing market, and while investors presently draw on a range of advisors and services, there is an underdeveloped demand / supply relationship for data and evidence on social impact, including who pays for it.
- Within this context there is a potential demand for the skills of evaluators. There is also an urgent need to build the field including a need to better articulate the demand for evaluative evidence, its associated costs and the respective institutional architecture. In particular, there appears to be a mismatch between investor's understanding of what evaluation can provide, and evaluator's understanding of how best to meet investor, and potentially societal, demands for evidence. It may also be that building this field has to be initially subsidised if it cannot be extracted from individual investment deals.
- To address this apparent latent demand requires new evaluative approaches consisting of adapted and innovative services, methodologies and tools. While there is extensive ongoing work on social metrics and indices, emerging strands for further development might include: blending monitoring and evaluation through the use of continuous data capture and evaluative analysis; better integrating ex ante evaluative thinking around social impact into risk analysis and investment decision-making; extending analysis beyond simplistic notions of social change (for example numbers of jobs created) towards transformational impact (for example broader economic impact); plus, shifting analysis beyond the effects of the direct investment in small or medium sized companies, and more towards better capturing effects, at the household or individual level. Capturing insights through this latter approach can also contribute towards empowering the voice of the individual.

"The research and evaluation community, particularly in international development, needs to step-up to meet the challenges of demand and practice."

- Some urgency is called for. In many ways, the changes are already occurring, although it is a dynamic space that is being partly filled by more traditional advisors on risk analysis, due diligence and investment decisions (such as auditors, accountants, lawyers and management consultants). The research and evaluation community, particularly in international development, needs to step-up to meet the challenges of demand and practice. Various ways to speed up learning were suggested, for example developing communities of practice that would exchange knowledge and experience, and the setting up of a Social Innovation Fund that would support experiments and innovation. Learning should be promoted beyond the evaluation community and include actors already serving market-oriented initiatives.

"The emphasis should be on convening multiple coalitions and dialogues using an open and non-transactional approach. This could include discussions about language, failure, and the values used to make evaluative investment judgements."

- One way forward to help better shape demand and supply in this space would be to promote a diversity of platforms for dialogue between the evaluation profession and market-oriented initiatives. Rather than creating a single platform, the emphasis should be on convening multiple coalitions and dialogues using an open and non-transactional approach. This could include discussions about language, failure, and the values used to make evaluative investment judgements.
- A mapping exercise was proposed to provide a better understanding of the current and potential actors, and the institutional and regulatory architecture, both present and future. Existing networks should be invited to contribute and

collaborate: the Centre for Development Impact was invited to continue to coordinate initiatives, and suggestions made to link this to the global evaluation agenda 2016-2020, and the Sustainable Development Goals.

Global trends, and beyond traditional aid

1. In the coming decades the world faces several major challenges. The gap between the wealthiest and poorest is widening, with growing evidence that this affects all in society and not just the few. Inequality extends beyond material possessions, including inequality of voice and power, and of knowledge, in a growing digital divide. There is also an accelerating consumer demand with a burgeoning middle class in countries like China and India. Increased consumption is putting pressure on scarce resources leading to resource grabs, local pollution, global atmospheric carbon pollution, and pressure on humanity within planetary boundaries. There is also a need to build more inclusive and secure societies, that can better deal with devastation of conflict, or existential risks such as terrorism or epidemics.
2. In this context, the old 'north-south' model of international aid has become largely irrelevant, with a global economy characterised by integrated economics and fragmented politics. Whereas almost 90% of the poor used to live in low income countries in the 1990s, now around 70% live in middle income countries. The world has shifted towards a multi-polar political landscape, and former recipients of aid, such as Brazil, India, and China are now donors. The potential influences of corporations and financial flows has also rapidly developed; the number and influence of multinational enterprises has dramatically increased and Foreign Direct Investment is up from approximately USD 400 billion in the 1990s to USD 1.2 trillion in 2014.
3. There is now a growing recognition of a world of increased complexity and interconnectedness – where one hazard or event can extend its effects on another part of the global economy. With this also come new possibilities, with new arrangements of actors and institutions and increasing use of information communication technology (ICT), which are able to contribute to new axes of power, ideas, market hybrids, and multidimensional learning. All countries are now sources of innovation and ideas, generated by small and medium enterprises, citizens' organisations, with a complex multidimensional set of alliances and flows of global knowledge and power.

The challenge for international development and evaluating impact

"Monitoring and evaluation is merging, with developmental evaluation entering the mainstream to plug the demand for evaluative learning on an accelerated timeframe."

4. The architecture for international development and cooperation is also changing. There is a new framework for global development: The 17 new Social Development Goals (SDGs) to frame United Nation member states agendas and political policies from 2015-2030. A new global framework for financing development post-2015 was agreed in Addis Ababa in July 2015, drawing upon non-state and donor sources of finance, technology, innovation, trade and data that will support the implementation the SDGs, confirming new emerging alliances, partnerships and use of market instruments.
5. Evaluation approaches, tools, capacity and professional associations were developed predominantly for a public sector-driven development model. It is recognised that the evaluation community needs to respond to a world beyond that of traditional aid flows. Some shifts are already occurring: monitoring and evaluation is merging, with developmental evaluation entering the mainstream to plug the demand for evaluative learning on an accelerated timeframe. There are a multiplicity of new approaches and methodologies, and a greater awareness that context matters. But, in a world of complexity, increased market-orientated development and new hybrid alliances, evaluation must evolve further to evaluate partnerships, shifting norms, champions and change agents, the capacity and resilience of organisations, and incorporating and appreciating different perspectives.

"The community must also respond to the big data revolution, and to use ICTs for evaluation."

6. The community must also respond to the big data revolution, and to use ICTs for

evaluation. The challenge is also to simplify complexity, without being simplistic, dealing with different types of causality and perspectives of impact and considering judgements of value, significance and worth.

The promise of market-oriented instruments

7. A tipping point may have been reached whereby financial advisers are asking for products that have both a financial return and a social conscience. This might develop on a large enough scale to attract institutional investors and pension funds. Nevertheless, the so-called impact, or 'mission-based' investment industry is relatively new, and still reasonably small at an estimated USD 10 billion global industry - compared to the total assets of around USD 3 trillion under the management of hedge funds.

"There is a strong demand for *ex ante* impact evaluation work,"

8. This 'new' investment market segment does, however, fundamentally challenge the entrenched approach of global financial and credit institutions, with their vested interests in the current institutional arrangements.

9. In Africa, like many other parts of the world, typical SMEs cannot currently find adequate access to expansion capital, and can be trapped in cycles of inhibited growth without access to external finance. Traditional private equity funds invest for profit, but not explicitly for development impact. The potential for new impact investment funds could be to deliver a portfolio of short to medium term financial returns, alongside a footprint from companies leaving behind a social and sustainable impact.

"There is only a fledgling system (the institutional architecture) for social and environmental impact evidence, and it has yet to be systematically incorporated into all stages of the business cycle"

10. But this is a nascent industry, and large 'bad news' events exposing failure can present a systemic risk to the industry's growth if shareholders and the broader constituency do not believe in the offer. Therefore there is a strong demand for *ex ante* impact evaluation work, and for development evaluators and market-based actors to enter into dialogue in an open, non-transactional manner in safe spaces, including discussing failure.

11. There is also a need to better align incentives. Evaluators have to do more than evaluate or critique the industry. They also have to become 'field-builders' to demonstrate their approach and its value. Disclosing financial returns are a standard business and statutory requirement, and are framed by audit and internal accounting mechanisms. Yet, there is only a fledgling system (the institutional architecture) for social and environmental impact evidence, and it has yet to be systematically incorporated into all stages of the business cycle.

"The impact investing sector is presently demanding lean systems for assessment and certification, although there is a risk in simplistic numerical summaries. Metrics and rating systems are insufficient on their own,"

12. 'Field-building' takes decades, and may need to be subsidised initially rather than extracted from individual deals. Whilst it is nearly ten years since the first impact investing initiatives were launched, early-stage initiatives are only now underway to build the impact investing system. For instance, a certification and ratings approach, initially based in the United States - the B-Lab (impact investor standards) and B-Corp (impact investor certifier) - are now opening up in the United Kingdom and Australia. B-Corp also announced that the Sustainability Accounting Standards Board (SASB) is going to make data available on their website. As part of this it is important to consider who currently pays and should pay for evaluating impact: the institutional investor or private entrepreneur, or outside actors from the wider system?

13. Consideration is also needed of the balance between standardisation in impact evidence, whilst also capturing and assessing the uniqueness of impact. The impact investing sector is presently demanding lean systems for assessment and certification, although there is a risk in simplistic numerical summaries. Metrics and rating systems are insufficient on their own, and indeed the current tools and approaches used for results measurement of impact investing (e.g. GIIRS using IRIS) are narrowly focused – and, do not extend to assessing how social benefit is realised from investment.

"Plethora of market-orientated initiatives is developing: from low carbon initiatives, challenges and prizes, to new forms of collaboration in public private

14. Development evaluation, with a considerable record of assessing and understanding

partnerships (PPPs), and crowd-sourced social investments. All of these pose new challenges for evaluation."

social and environmental change, can contribute here. However, ways of working, methodologies and tools will need adapting. In the past, evaluation has been adept at borrowing from other fields to develop methods and tools, and there is no obvious reason why this trend should not continue. The current service provider market is dominated by management consultants and accountancy firms, who have pre-existing business relationships in the investment industry. There is much scope for mutual learning. Auditors, for example, have introduced impact across multiple dimensions, conceptualising this as risk and providing ways for investors to understand and assess this complex territory, for example in relation to the environmental risk of flooding.

The burgeoning market of market oriented initiatives

15. Global trends extend beyond just the emergence of socially-responsible investments. A plethora of market-orientated initiatives is developing: from low carbon initiatives, challenges and prizes, to new forms of collaboration in public private partnerships (PPPs), and crowd-sourced social investments. All of these pose new challenges for evaluation.

"A mapping exercise could potentially help to identify actors, stakeholders and beneficiaries and bring these together."

16. Some of these areas of work, such as PPPs, have a long tradition and have been relatively well evaluated; others are relatively new and evaluations are just emerging. There is widespread agreement on the need to learn from existing experiences and to see whether these would be applicable to the new initiatives. Several areas of work are fragmented, without platforms providing opportunities to ensure learning or exchange of experiences. A mapping exercise could potentially help to identify actors, stakeholders and beneficiaries and bring these together.

Accountability and empowering people

"Evaluation has the potential to provide a way to capture the voices of a broader group of constituents, including those that are on the receiving end of the benefits (or the unintended consequences) of new initiatives."

17. Privately-controlled investments are not subject to the same accountability demands as public funds on which the present evaluation system is largely founded. Yet, the claims of socially or environmentally responsible investments are that they have an effect on society that extends beyond improved company growth, profitability and job creation. Evaluation has the potential to provide a way to capture the voices of a broader group of constituents, including those that are on the receiving end of the benefits (or the unintended consequences) of new initiatives.

18. Another challenge is how to ensure the voices of those affected in the community is reflected in any evaluation process of market-orientated initiatives, which are driven by different incentive structures. By reversing roles – allowing members of the community to do their own evaluation and tell their own stories in their own way – it may be possible for people to take ownership, and talk about their lives, problems and establish causal relationships with interventions. Participatory approaches to evaluation also offer opportunities to strengthen local communities and their relationships with private sector organisations over time.

"Real-time feedback of voices from constituents, contributing to the sense of empowerment of the people affected."

19. Another approach is to use feedback loops, whereby investment funds harness and integrate perspectives from their constituency. One investment fund shared how feedback was integrated into investment decision-making and management. This has provided a channel for real-time feedback of voices from constituents, contributing to the sense of empowerment of the people affected. This helps to confirm the intervention's relevance, allow investment managers to manage results and act fast to course correct, whilst building dialogue with constituents simultaneously. Tools and approaches include micro-surveys through interactive technology-enabled voice and response surveys.

20. The role of big data and participatory statistics could also provide significant opportunities for a more transformative evaluation agenda. Big data offers analysis at different scales and levels, combining voice data with other objectively collected data. It also offers options for anonymised data collection, allowing feedback from communities

without repercussions. For example, satellite imagery of deforestation / reforestation, onto which (anonymised) locally collected data is mapped to plot the impact of interventions. The power of citizen-generated data was evidenced most clearly by the widespread use of social media and crowdsourcing during the Arab Spring in 2011.

21. Big data also presents a series of risks. To what extent is big data transformative for evaluation? There is an increasing view that more data equates to more citizen engagement, but does this really happen? There are concerns that over-automation in analysis could bias conclusions, with the risk of losing the human aspect. There is also the well-known risk of data quality, and the limitations this brings to analysis and drawing conclusions. The risk of a widening of the digital divide is also noted, with those who are not connected with ICTs further disadvantaged in access to information.

22. The concept of civil society is also changing as people become more aware of their place in a global economy and more wealthy consumers choose how to spend their money, and ask questions about how their money is invested. The growth of Fairtrade-certified products is testament to this trend, but there are also new modalities emerging which express their social values in how they deploy capital. This includes crowdsourcing and cooperative forms of investing, with people uniting in collective action to invest in social change, for example the through an organisation such as Shared Interest.

Next steps for action

"The private sector can be very good at monitoring issues of significance to their business models, and taking corrective action in response. Evaluation could be added to this culture,"

23. Build a new evaluation field for impact investing. Given that there are not yet any established systems there is a possibility that the industry can leapfrog to strong evaluation systems from the start. The private sector can be very good at monitoring issues of significance to their business models, and taking corrective action in response. Evaluation could be added to this culture, if it responds appropriately to demand. With such a variety of different stakeholders, and progress already made in building the impact investing system, international evaluation networks and national associations have an opportunity to join with private sector associations, consultancies and funds in coalitions to take the dialogue forwards; establishing a shared language and feedback mechanisms on how the system is, or is not, working.

24. An increased understanding by evaluators of investors in order to adapt and respond to the demands. For example, the private sector is likely to require a greater focus on ex ante assessment of impact, considered in terms of expected value, and potential risk. A focus on rigorous evaluation may not always be sufficient or fit for purpose. The trend towards merging monitoring and evaluation presents the opportunity to rethink the traditional roles that evaluators play as fully independent actors. This may also need an evolution from a fixed, report-oriented approach, towards continuous data capture and evaluative analysis as the norm. Evaluation can offer significant benefit if integrated into all aspects of the investment cycle, not just the end, incorporating regular ongoing evaluative feedback to inform adaptation to enhance likelihood that an intervention will contribute to impact. But, is this possible in a way that does not undermine the quality of the evaluative function? Virtual analysis, modelling trends and conditions, along with visualisation, are likely to have a place. Further work on how evaluation might play a role in capturing and raising up the voices of citizens and the risks of unintended (and potentially damaging) consequences.

"Coalitions and partnerships could experiment with new and innovative ways of measuring the impact, and facilitate the building of key institutions and wider impact and evaluation systems."

25. Bringing together investors with intermediaries and beneficiaries, not just the enterprises but also their constituent communities. This would help to improve understanding of the far-reaching aims of social impact investing. Such multiple coalitions and partnerships could experiment with new and innovative ways of measuring the impact, and facilitate the building of key institutions and wider impact and evaluation systems.

26. Open and genuine dialogue would be beneficial with all the various actors coming

together and being transparent about their different interests. Dialogues will encourage more informed perspectives and shared understanding. If common standards and/or regulations are to be developed the dialogue between evaluators and investors needs to be demand-driven not seen as imposed.

27. Lessons could be learned from other fields such as microfinance, which, although significantly different, have been through similar debates about social performance auditing and indicator frameworks for example.
28. Understanding change beyond the immediate investment or particular enterprise could prove invaluable in improving investment decisions and the assumptions, risk analysis and metrics used to inform them. The Centre for Development Impact was invited to play a potential role (amongst others) in convening different stakeholders.

Specific actions for 2015

29. System mapping: There is a need to better understand the demand, the incentives, structures and actors in the current and future market-oriented development arena. Auditors, social investors, green growth investors, evaluators, enterprises, fund managers, standards bodies and certifiers, are all early adopters and change agents, with perceived and real interests in providing a basis for action. Such a mapping exercise might include both meta-assessment and a literature review, as well as engagement through dialogue.
30. Social Innovation Fund: To encourage innovation the establishment of a social innovation fund is recommended, targeted at civil society and NGOs who could support 'understanding by doing' and experiment in investing in exchange for learning.
31. Global evaluation agenda setting: There is a need to link the evaluation of market-oriented investments to the mainstream evaluation community and the global evaluation agenda during the International Year of Evaluation. The global agenda for evaluation 2016-2020 will be adopted in Nepal in November 2015, and a session on evaluating market-oriented investments is being planned for the IDEAS Global Assembly later in 2015.

"There is a need to link the evaluation of market-oriented investments to the mainstream evaluation community and the global evaluation agenda during the International Year of Evaluation."

Charlotte (Charley) Clarke, Principal Consultant, Itad Ltd
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