CDC Group plc Development Review 2009

CDC

Our mission
is to foster growth in sustainable businesses, helping to raise living standards in developing countries.

Our investment policy
is to make more than 75% of new investments in low income countries* and to invest more than 50% of our funds in sub-Saharan Africa.

* Those with an annual gross national income (GNI) per capita of less than US$905 as defined by World Bank 2006 data.

Contents

Development highlights

794
Underlying portfolio companies located in 71 countries

733,000
People employed in portfolio companies reporting employee data

US$2.8bn
Local taxes paid by portfolio companies reporting tax data in 2009

£359m
New investments in developing countries, 61% in Africa

£742m[1]
Other capital mobilised

Thought leadership
Gender and climate change studies completed in 2009 for inclusion in revised toolkit for fund managers

Fund evaluations
7 out of 20 development impact evaluations performed independently of CDC in 2009

CDC's Investment Code
Processes externally audited for the first time

[1] See page 73 for an explanation of how mobilisation is measured.

Statement from the Chief Executive

Richard Laing

"An investor who is doing good in society in emerging markets is also more likely to be doing well financially."

CDC exists to improve people's lives in developing countries. We need to assess how effective we have been and I am therefore pleased to present CDC's second annual report on the developmental effects of our investments. CDC's first development review Growth for Development, published in 2009 was well received. This report extends and deepens the analysis of CDC's development impact and reports comprehensively on CDC's work in 2009.

The role of economic growth in reducing poverty

As a DFI, helping businesses to grow sustainably is central to CDC's mission. We have been supporting the development of the private sector in poor countries for more than 60 years. It is through economic growth that opportunities are created for poor people to establish a long-term route out of poverty for both themselves and their families.

CDC is an integral part of the Department for International Development's (DFID) strategy to help support the private sector in developing countries. Flourishing businesses give individuals employment and training opportunities and, through this, the prospect of a more secure future. For governments, successful businesses generate profits and taxes, which contribute to public services, infrastructure, innovation and a stronger link between state and taxpayer.

Doing good and doing well

For the first time, CDC's extensive data collection in 2009 enabled us to run regression analyses of non-financial factors on our portfolio. The most interesting and not entirely surprising result was that there seems to be a correlation between how well a fund performs financially and how good the quality of its Environment, Social and Governance (ESG) management systems are. In other words an investor who is doing good in society in emerging markets is also more likely to be doing well financially. While these are only initial findings and more rigorous analysis and extensive data collection is needed it is indeed encouraging. The analyses are explained in further detail on pages 14 and 15.

CDC's portfolio in 2009

At the end of 2009, we had capital invested in 134 funds managed by a total of 65 different fund managers. This represents an increase of six fund managers in 2009, all providing vital capital during a year of challenging financial conditions across CDC's markets. With supplies of commercial capital to developing countries falling back in 2009, capital from Development Finance Institutions (DFIs) has taken on even greater significance. Despite the difficult conditions, we invested £359m in promising businesses in 2009. The number of CDC's portfolio companies at the end of 2009 stands at 794, an increase of 113 on 2008. Across our portfolio, CDC's capital is invested in businesses that employ a total of 733,000 people in the 617 companies that reported employment data.

Challenges in 2009

For CDC's investment team, the environment in 2009 was challenging. With lower liquidity and fewer exits across our portfolio, CDC was forced to scale back the level of its new fund commitments. A total of £207m was committed by CDC in 2009, down by £390m on 2008's figure. Despite this fall in 2009, our total outstanding commitments stand at around £1.6bn. This capital is available to our fund managers for investment in businesses over the coming years.

By the end of 2009, a more optimistic outlook had returned to many of CDC's key investment areas. While western economies shrunk, GDP growth in sub-Saharan Africa remained positive at 2.5% and was almost 7% in India over the course of 2009. More generally, developing economies have lower debt burdens as well as higher growth rates than most developed economies. Based upon these fundamental strengths, CDC is hopeful that market conditions and investment opportunities will continue to improve in 2010.

Pioneering investment in 2009

Despite the tough financial backdrop, CDC continued to invest in new, often pioneering, funds in 2009. Two funds in particular showed CDC's dedication to investing in previously underserved regions and sectors. In June, CDC committed US$10m to Rabobank's India Agribusiness Value Fund, a fund which focuses on enhancing all aspects of the agribusiness value chain – from farming to production and marketing. The fund is the first agribusiness-only private equity venture in India. In Sierra Leone, CDC backed the first private equity fund to emerge since the end of the country's civil war. The fund will provide backing to businesses, particularly SMEs, and will boost the private sector in this emerging economy.

CDC's Investment Code on ESG issues

2009 was also the first full operational year of CDC's new Investment Code which began on 1 January 2009. The code acts as a comprehensive guide to ensure that CDC's investments are continually improving towards best international practices on the environment, safe and fair working conditions and good practices in corporate governance. The code is designed to complement the role of private equity as a long-term investment vehicle and recognises that fund managers are well placed to implement best international practices on ESG in portfolio companies.

In 2009, 83% of companies covered by CDC's evaluations made ESG improvements following investment by the fund manager. Whilst this is a considerable achievement, it is also a very necessary one. 73% of companies covered by the evaluations had, at the time of initial investment, ESG issues or opportunities for improvement. We continue to work with our fund managers to promote and ensure that ESG improvements take place across portfolio companies.

How CDC is adding value as an investor

The role of development finance is to provide capital where there is a shortage of commercial investors. DFIs can also help reduce the perception of risk among commercial investors and thereby catalyse even greater levels of third party capital. CDC agreed in 2009 a new methodology with DFID for assessing the third party capital that it has mobilised in the funds in which it is an investor. The methodology recognises that CDC's influence is greatest in mobilising capital for first funds than subsequent ones. We found that over the past three years CDC has mobilised 278% more capital to funds than from its commitments alone. This beats the 200% target set for us by DFID. Please refer to chapter 7 for more details on our work in mobilising capital and the methodology behind this.

CDC chooses its fund managers carefully to ensure they bring a strong local presence to the investment process. All except two of CDC's 65 private equity fund managers have local offices, with country locations ranging from Nigeria to Zambia, Indonesia to Sri Lanka. The development of a sustainable, vibrant investment infrastructure is a key part of economic development and our backing for local managers means that we support poor countries' economic growth by doing more than just placing our capital in businesses.

Early in 2010, we completed updates to our Toolkit for Fund Managers. The new publication will give fund managers and others an improved and more user-friendly resource to demonstrate how good management on ESG can add value to investments. The Toolkit provides tools for integrating ESG analysis into investment decisions and explores the business case for doing so. We will share our new Toolkit with all our fund managers as well as any other interested external parties in the first half of 2010. The toolkit is available on the CDC website: www.cdcgroup.com

International collaboration and initiatives

Through our work with international partners we are making a difference to thinking on issues key to enhancing development impact. There is a disproportionate number of poor women in the world and in order to find ways to address this we commissioned a study on gender in collaboration with three other DFIs. The study provides best practice guidelines and advice on how to implement gender equal standards in private sector companies in developing countries. We also commissioned a climate change study to help our fund managers better understand and manage climate change risks across their portfolios.

Various collaboration and opportunities for speaking engagements were also undertaken during the year. CDC worked with Oxfam and the Church of England to raise the profile of private equity investment in developing countries; in Washington early in 2009 we met with other DFIs to find innovative ways to help our markets meet the challenge of the recession; and in November 2009 we led a fact-finding visit to help Bangladeshi policy makers make their country a better place to invest. We also became a signatory to the United Nations Principles of Responsible Investment (UNPRI) and are actively involved as a Steering Committee member in two of its working groups. Being a UNPRI signatory enables us to engage in closer dialogue with and bring our experience and insights to other investors whilst also learning from them.

Evaluating CDC's performance

A cornerstone of CDC's system for measuring development impact is the evaluations of its funds.

For the first time, in 2009 we decided to use independent assessors to carry out some of our evaluations. Seven out of 20 evaluations were completed by Triple Value Strategy Consulting. This has provided valuable external validation of CDC's evaluation process and showed that CDC on average rates its funds' performance at least as critically as the third party. In addition, Triple Value has also contributed new ideas to CDC's thinking on how to measure development.

Over the investment period of the 20 funds under evaluation, a total of 87,000 new jobs were created. Just 22 of the 265 companies reporting this data saw employment decrease. A total of 68% of companies in the funds evaluated saw an increase in profitability following investment from CDC's fund managers and 82% saw an increase in revenues. Over US$3bn was paid in taxes to domestic governments over the period of investment by 179 companies reporting this data to CDC. In this way, CDC's investment brings real economic benefits to those countries it reaches.

Final words

2009 proved a challenging year for CDC, fund managers, portfolio companies and emerging markets. Our portfolio was nevertheless able to respond well to these challenges and we expect the outlook for 2010 to be more favourable. Looking ahead, our 2009-13 Investment Policy stipulates that at least half of the new investment made will go to sub-Saharan Africa and at least three quarters of our investments to low income countries[1]. CDC will thereby continue its efforts to reach markets where investment capital is scarce and continue to offer them a sustainable route out of poverty.

Richard Laing
Chief Executive

Statement from the Chair of CDC's Best Practice and Development Committee

Jonathan Kydd

CDC's role

As a long-standing member of CDC's Board I have been fortunate to be part of some of the most significant changes in CDC's history and thinking on economic development. Whilst these changes have seen the organisation's structure and business model transform, CDC's drive and effectiveness in supporting the private sector in poor countries is as strong as ever.

The Chief Executive has mentioned in his introduction that the global economic crisis which unfolded in 2009 presented considerable challenges to CDC. Fortunately, as a consequence of its financial success in recent years, CDC was well-placed to continue investing new capital in developing countries at a time when it was most needed.

As a Development Finance Institution (DFI), CDC is ideally suited to providing capital to markets where there are higher risks and where investment is in short supply. CDC's investment targets for 2009-13 are more ambitious than any European DFI equivalent. At least 50% of new capital committed by CDC is to be deployed in sub-Saharan Africa and at least 75% to low income countries.

As an investor in private equity funds, CDC's capital is invested for the longer term and therefore assists companies to grow and develop over time. CDC's role in supporting new fund managers to establish vibrant private equity infrastructure in developing economies should not be underestimated.

CDC can also help to address specific problems across emerging markets. One example of this is CDC's commitment to the Global Trade Liquidity Programme, a major global initiative coordinated by the IFC, designed to help overcome the shortage of short-term trade finance which stemmed from the financial crisis.

Obligations of managing public money

One of CDC's most significant achievements over the past few years has been to establish a system to measure development impact. This was a vital step and one that took considerable time and thought. As a consequence CDC's systems for monitoring and evaluation are as comprehensive as any in the development finance industry. CDC's outsourcing of seven impact evaluations to an independent third party marks a further stage in the development of a robust approach to analysing the benefit of CDC's capital to local economies.

There is no room for complacency here. The demand for even more thorough and nuanced understanding of the links between commercial capital and poverty reduction is growing. CDC must continue to be proactive in this area and work to ensure that its evaluation work and Environment, Social and Governance (ESG) systems remain at the forefront of the industry. This is further discussed in chapter 6.

Priorities in 2010

In the upcoming year, CDC will continue to refine its systems that measure development impact. As an intermediated investor, the intellectual and practical challenges here are complex. It is vital that CDC's Investment Code is implemented by its fund managers. The findings of the audit into CDC's ESG systems will play an important part in driving this process. This is the first audit of its kind for CDC and marks an important step towards assessing the effectiveness of the systems that CDC has worked hard to establish.

CDC will also focus on enhancing its understanding of its portfolio in the upcoming year. Internally, it will assess the climate change impact of its portfolio. Externally, CDC will contribute to and learn from other investors who are signatories to the UNPRI. CDC also hosted a working forum for ESG and development impact issues between the European DFIs in London in April.

CDC Board visit to Bangladesh

In order to observe first hand the impact that development capital can have, CDC's Board visited Bangladesh in November of last year. Bangladesh might appear a risky destination for foreign investment. Although its GDP has been growing at 6% per annum, developing businesses in the country face severe challenges. These include environmental problems, lax corporate governance standards and a lack of power infrastructure.

Preconceptions can be misleading and it is CDC's role to demonstrate to others that responsible and successful investing is possible. CDC and its Board co-hosted two seminars attended by over 100 participants from the investment and government communities to discuss the role of the private sector and private equity in development. In Bangladesh, a new entrepreneurial generation is emerging which understands how private sector development can transform lives as well as the value of developing businesses sustainably and with adherence to the best international business and ESG standards. It is part of CDC's mission to help foster this talent by backing the entrepreneurs and investors that will bring greatest benefit to Bangladesh. While our recent support for its nascent private equity industry is new, Bangladesh is not a new market for CDC. Indeed, it was to address Bangladesh's poor power capacity in the early 2000s that CDC backed three gas-powered plants, through its former Globeleq subsidiary, that provided 25% of the country's electricity.

Reflections

In 2010, I shall be retiring from CDC's Board after 13 years and as Chairman of the Best Practice and Development Committee. My association with CDC is a source of great pride and proved a valuable complement to my academic work as a development economist, with a focus on Africa. CDC stands, as it has always stood, at the pioneering edge of the private sector's ability to improve lives and reduce poverty.

Prof. Jonathan Kydd
Chair of CDC's Best Practice
and Development Committee

About CDC

Chapter

CDC is a development finance institution (DFI) owned by the UK government's Department for International Development (DFID). CDC is a core part of DFID's strategy to reduce poverty and create sustainable economic growth through private sector development in emerging markets. It has been profitable in all but four years since its foundation in 1948.

At the end of 2009, CDC was invested in 794 companies through 65 fund managers. These investments are spread across 71 developing countries. Further details of CDC's intermediated investment model and the importance of this model are discussed in this chapter.

Chapter 1: About CDC

CDC is a development finance institution (DFI) owned by the UK government's Department for International Development (DFID). CDC is a core part of DFID's strategy to reduce poverty and create sustainable economic growth through private sector development in emerging markets. It has been profitable in all but four years since its foundation in 1948.

Current portfolio

Sub-Saharan Africa
45% of CDC's portfolio
£640m, 28 countries

Asia
43% of CDC's portfolio
£607m, 27 countries

Latin America
5% of CDC's portfolio
£73m, 12 countries

North Africa
7% of CDC's portfolio
£91m, 4 countries

Low income countries[1]
54% of CDC's portfolio
£762m

Middle income countries[2]
46% of CDC's portfolio
£648m

Background

CDC was the first DFI. It was established in 1948 to strengthen the economies of the former British colonies by providing finance for businesses by way of loans and equity. In 1970, CDC started investing outside the Commonwealth. Since its inception over 60 years ago, CDC has been supporting promising businesses in Africa, Asia and Latin America and kept reinvesting its profits to an ever larger number of companies in these emerging markets.

Why governments invest in Development Finance Institutions

There is a wide consensus among policy makers and economists that growth is the most important factor in sustainable poverty reduction. Unlike some other DFIs, CDC focusses exclusively on private sector investments. Commercially successful businesses provide employment opportunities which are critically needed in poor countries that often suffer from chronically high unemployment rates.

By providing finance for promising businesses in developing countries, DFIs can help to stimulate private sector development in economies underserved by commercial financial institutions. Companies which receive investment generate new employment and pay taxes, offering both individuals and governments prospects for forging their own route out of poverty. Profitable and growing businesses also generate increasing tax revenues that allow low income country governments to fund their own development programmes through investments in primary education, health services and infrastructure.

DFIs have a particular role to play in enabling investment in underserved project types and settings, investing in under-capitalised sectors and mobilising other investors. DFIs can be particularly potent when they invest capital in regions suffering from market failure and where access to capital for businesses is in short supply.

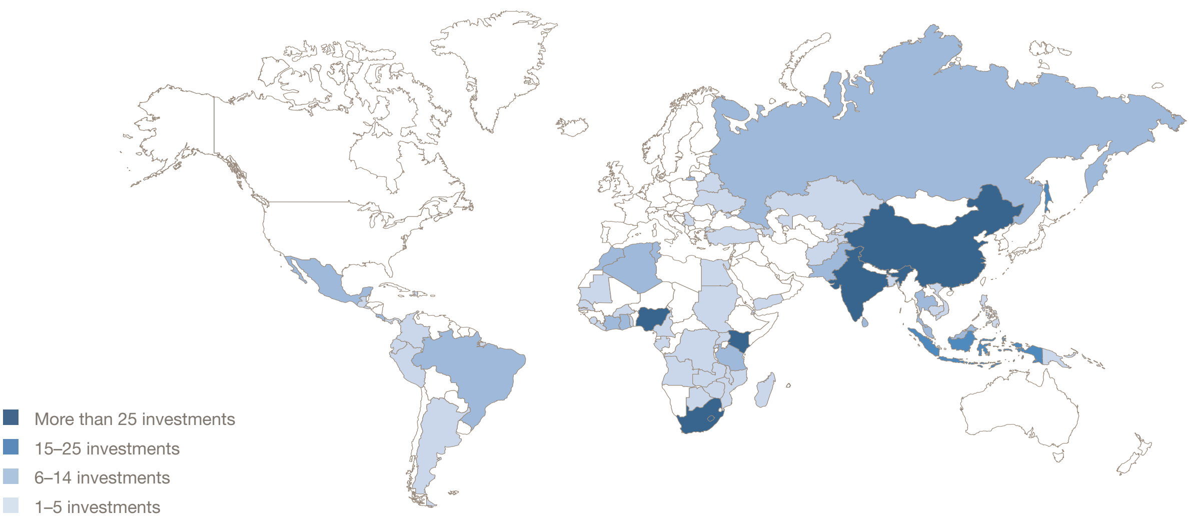
DFIs can also have a catalytic role by facilitating additional investment flows into emerging markets. They fulfil this role primarily through:

- helping mobilise private capital and expertise through their long experience of emerging markets. DFIs encourage additional funding for promising business which might not be committed without the presence of the DFI;
- increasing the visibility of promising opportunities and offering tailored financing solutions, thereby mitigating risk to other parties; and
- creating a multiplier effect in which their own capital is added to by private investors.

DFIs provide added value by the way in which their approach and types of investments sometimes differ from those of a more mainstream investor. The DFIs fulfil this by:

- investing at an early stage in enterprises in developing countries which are seeking finance;
- providing financial solutions that other private sector investors would generally not be willing to use;
- being cogniscent of and managing typically higher risks in emerging markets;

CDC's investments by year end 2009: 794 investments in 71 countries



- developing and growing projects and businesses over the longer term as opposed to shorter term approaches; and
- investing in small and medium sized enterprises (SMEs), with a particular focus on Africa.

Poverty remains a reality for large parts of the population in emerging markets. Continued investment in locally based funds and companies to provide economic growth and poverty reduction therefore remains as important as ever. The first of the UN Millennium Development Goals aims to reduce by half the number of people living beneath the poverty threshold by 2015. This target is still some way short of being met for sub-Saharan Africa in particular. South Asia by contrast has kept closer to matching its target of less than 25% of people living beneath the poverty line by 2015.

Where CDC invests

CDC's investments are focused on the poorest countries. When CDC's investment policy for the 2009-13 period was formulated, DFID and CDC set out three policy targets to guide CDC's new commitments:

- 75% or more of new investments shall be in low income countries[1];
- 50% or more of new investments shall be in sub-Saharan Africa; and
- up to £125m may be committed to SME funds in middle income countries[2].

As a result of these policy targets a larger proportion of CDC's new investments are directed towards low income countries than any other DFI. CDC also seeks to address issues such as the scarcity of debt capital for companies and infrastructure projects across emerging markets and in sub-Saharan Africa in particular. Through investment in debt funds CDC intends to develop and strengthen African debt capital markets.

The Global Trade Liquidity Programme

One example of DFIs' 'additional' value: provision of finance during the financial crisis.

Background

The financial crisis which began in late 2008 has had a mixed effect on CDC's core markets and geographies. One way of measuring this is to look at foreign direct investment (FDI). The World Investment Report for 2009 demonstrates the significant impact of the crisis on FDI. FDI inflows decreased 14% worldwide in 2008 and 44% in the first quarter of 2009 compared to first quarter 2008.

Impact on FDI inflows in emerging markets

Although a greater share of overall FDI was directed at developing markets in 2009, the report paints a gloomy picture for the year as a whole. Pledged investment for developing countries has also fallen back. This means less capital has been committed to emerging markets and, in this sense, the financial crisis will continue to be felt in Africa and Asia for some time to come.

Although data is not yet available for the emerging markets as a whole, it is possible to see the impact of the crisis on individual countries. In India, FDI flows decreased by an estimated 16% in 2009. In South Africa, this decrease was approximately 13%. In such an environment of diminished capital, the role of DFIs becomes even more important.

One response: The Global Trade Liquidity Programme

In 2009, CDC committed US$75m to the Global Trade Liquidity Programme (GTLP), a fund initiated by the International Finance Corporation (IFC). The GTLP is designed to address the scarcity of trade finance in emerging markets which resulted from the financial crisis. At the time of the programme's launch, trade was estimated to have declined by as much as 10% in 2009, the largest decline since this measure was introduced.

The GTLP has a total size of US$5bn with commitments from a range of institutions. These include a combination of governments, DFIs and private sector banks. The programme hopes to mobilise an estimated US$50bn of trade which would not have happened without support from the GTLP.

President of the World Bank, Robert Zoellick commented at the launch: "As a result of the concerted efforts of the partner governments, development finance institutions and banks, the GTLP has quickly moved from concept to reality and will start to provide significant support for trade in developing countries."

The GTLP fully reflects CDC's desire to provide solutions to changing circumstances in the emerging markets. It also reflects part of CDC's new strategy to finance debt as well as equity which is discussed further in chapter 7.

"While developed countries were initially those most affected (by the decline in 2008 of FDI flows), the decline has now spread to developing countries, with inward investment in most countries falling too. The decline poses challenges for many developing countries, as FDI has become their largest source of external financing."

Ban Ki-moon, World Investment Report 2009, UNCTAD

Board visit to Bangladesh (2009)

Board visit to Zambia (2008)

About CDC continued

Top investment destinations

India
19% of CDC's portfolio
167 companies
£268m

China
14% of CDC's portfolio
112 companies
£197m

South Africa
10% of CDC's portfolio
42 companies
£134m

Nigeria
9% of CDC's portfolio
41 companies
£121m

Kenya
3% of CDC's portfolio
53 companies
£44m

At the end of 2009, CDC had capital invested in 134 funds which in turn invested in 794 companies which were spread across 71 countries worldwide. The largest share of CDC's portfolio value is located in sub-Saharan Africa which represents 45% of CDC's portfolio value and some £640m while 43% is invested in Asia. 54% of CDC's portfolio was at the end of 2009 committed to low income countries according to the World Bank's 2006 categorisation.

Nature of the investment universe

CDC's investment universe is directed towards low and middle income countries where a large proportion of people live in absolute poverty. A typical measure of absolute poverty is the World Bank US$1.25 a day poverty line (US$38 per month), defined as consumption or income below this threshold. By investing in under resourced markets and sectors where CDC's investments are more needed, the financial, economic, ESG, and private sector development outcomes are likely to be greater.

Sub-Saharan Africa has the highest proportion of the world's poor with 51% of the population, nearly 400 million people, living beneath the poverty line. Nigeria, sub-Saharan Africa's most populous country has the continent's greatest number of poor with as many as 90 million people in that category. Kenya, another country that is home to a substantial number of CDC portfolio companies, has 20% of its population in poverty. CDC also directs its capital to low-income countries in Asia, with a focus on South Asia and the Mekong region of South East Asia. The largest of these investment destinations is India.

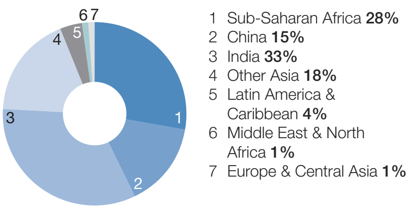
India contains the largest number of poor people of any country in the world with approximately 450 million people living on less than US$1.25 per day. 340 million of these, or more than 70%, live in rural areas. Bangladesh is also extremely poor, with 50% of its 150 million people classified as poor under the World Bank poverty line. Parts of South East Asia are similarly poor – in Vietnam, 23% of people live on less than US$1.25 a day.

How CDC invests

CDC's operating model

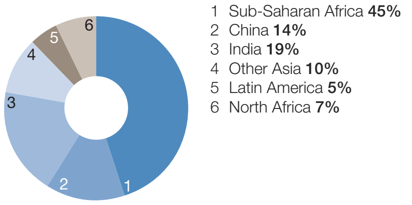
Since 2004, CDC has been constituted as a fund-of-funds. This business model was established following a major restructuring by CDC's shareholder, DFID. As a fund-of-funds, CDC is not a direct investor into companies in emerging markets. Instead it deploys its capital through private equity funds which in turn invest in these companies. These funds thereby provide CDC with an indirect share in the businesses in which the fund manager invests. Through these investments the fund managers provide companies with access to capital that allows them to expand and improve their businesses. Other investors, both public and private, invest alongside CDC with these fund managers. This further expands the access to capital for fund managers to invest in businesses in emerging markets.

World's poor by region*

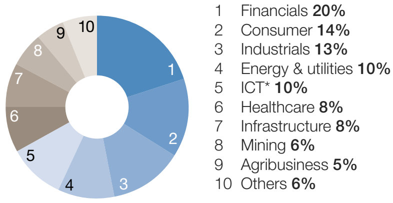


*Per World Bank regional divisions

CDC portfolio value by region



CDC portfolio value by sector



*Information and communications technologies

The importance of Environmental, Social and Governance factors
Environment, Social and Governance (ESG) matters are key considerations for CDC when it invests. This stems not only from CDC's commitment to responsible investing but also because good ESG standards can increase the value of businesses. Good ESG standards can constitute a source of competitive advantage, for example by enhancing brand value or by qualifying a company to bid for certain contracts.

CDC therefore devotes considerable effort to assisting its fund managers in this area. The fund managers in turn work closely with their portfolio companies in the pursuit of continuous improvements in corporate governance and promoting high environmental and social standards. CDC's ESG work is described in greater detail later in this report, particularly in chapters 2 and 6.

Supporting fund managers and companies
As a fund-of-funds, CDC does not play a direct role in managing the investments made by its fund managers. Instead, it provides support to its fund managers and by extension, also indirectly to the portfolio companies. For portfolio companies, with assistance from fund managers, the period of investment which can be up to ten years, provides time to realise corporate growth opportunities and bring about improvements in business practices.

Realisation of investments
Private equity is a long-term investment vehicle. Capital invested through CDC's fund managers is realised only when the fund manager's shareholding is sold. The majority of the commercial returns occur towards the end of the investment period. However, the capital provided to companies helps businesses realise their growth potential and thereby generate more immediate and sustainable benefits. These include taxes paid and jobs created in the local economies.

Exits and re-investments
Typically after four to seven years (in which business improvements can be made) CDC's fund managers sell their investments in portfolio companies. This can happen through an initial public offering on the local stock market, a trade sale to another company in the same sector, an investment by a new investor, or, in some cases, an investment by the company's own management.

Profits from these sales are returned by the fund manager to CDC and other investors. CDC reinvests the proceeds from these long-term investments in new funds, which in turn deploy CDC's capital into new companies. Capital is thereby redeployed in new companies in need of growth capital.

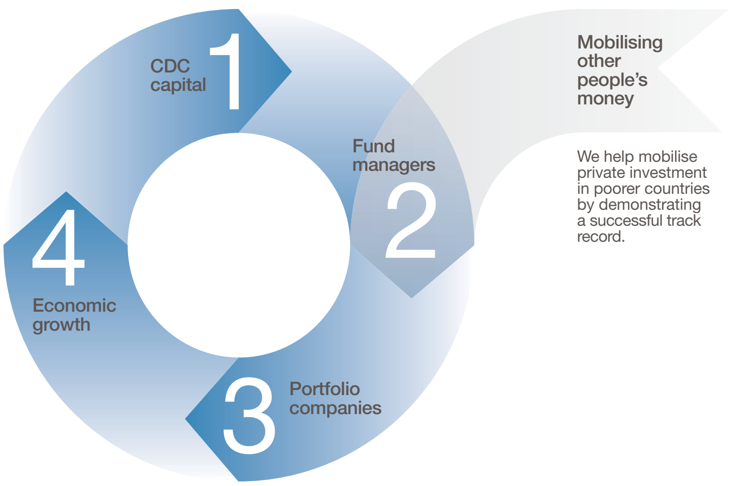
Actual 2009 investments
At the end of 2009 CDC had investments with 65 different fund managers in a total of 134 funds. During the year CDC's fund managers made £359m of new investments in developing economies with CDC's capital, a reduction of 18% on the record levels achieved in 2008. CDC also committed a total of £209m to new funds, again a substantial reduction caused by the constraints of the financial crisis, but still representing a major commitment to underdeveloped capital markets.

The Investment Code – CDC's principles for sustainable and responsible investments

Key objectives
The Investment Code defines CDC's principles, objectives, policies and management systems for sustainable and responsible investment from an ESG perspective. It is a key guiding document for all CDC's investments. It was developed in collaboration with DFID and became effective on 1 January 2009. It is set out in Appendix 1.

The Investment Code replaced CDC's Business Principles and contains updates and revisions in light of the development of international best practice.

CDC's business model: capital for investment in growing businesses in developing countries



1 **CDC capital**
CDC invests with fund managers.

2 **Fund managers**
CDC's fund managers invest in companies in developing countries.

3 **Portfolio companies**
Portfolio companies expand and improve upon their businesses.

4 **Economic growth**
Fund managers sell portfolio companies and return proceeds to CDC and other investors. Proceeds are reinvested by CDC.

About CDC continued

The key objectives as stated in the Investment Code are to:

- minimise adverse impacts and enhance positive effects on the environment, workers and all stakeholders of CDC and the businesses in which CDC's capital is invested; and
- promote improvements over time, as relevant and appropriate, given the level of risks involved or opportunities to add value.

The Investment Code thus takes a forward looking approach, recognising that ESG standards may be poor at the time of a fund manager's investment. By bringing about ESG improvements over the course of the investment period, CDC's capital can be used as a catalyst for improvement. The funds to which CDC has committed capital from the start of 2009 have signed this version of CDC's Investment Code. Fund managers that signed up to CDC's previous ESG policies will be encouraged, where possible, to adopt the Investment Code in future.

Alignment with international ESG reference standards
The Investment Code is linked to and closely aligned with the most important of the international reference standards related to ESG.

For labour and working standards the Investment Code aligns with the International Labour Organization (ILO) core labour conventions, the International Standards Organisation (ISO) series and the Occupational Health and Safety Advisory Services (OHSAS) standards on health and safety. In addition, CDC will ensure that its fund managers are made aware of refinements to best practices as these develop across the development finance industry. This is particularly the case with respect to the IFC Performance Standards and Environmental Health and Safety (EHS) Guidelines.

Corporate governance is a particularly important area of focus in many emerging markets. The Investment Code adheres to the Organisation for Economic Co-operation and Development (OECD)[3] Principles of Corporate Governance, the UN Anti-Corruption Convention[4], the OECD Anti-Bribery Convention and the Extractive Industries Transparency Initiative. The purpose is to promote greater accountability and transparency, to define management responsibilities at portfolio companies and to set up effective risk control systems.

The exclusion list ensures CDC's capital is not invested in products or activities prohibited by local or national laws or regulations. It also incorporates certain products or activities banned by global conventions and agreements. This includes hazardous chemicals, pesticides and wastes[5]; ozone depleting substances[6]; and endangered or protected wildlife or wildlife products[7]; and unbonded asbestos fibres. Conversely, the exclusion list recognises the challenge of investing in some African companies and thus allows investment in tobacco production if there is a clear phase-out plan in place.

Governance of ESG

Legal agreements to ensure adherence to the Investment Code
When CDC commits capital to a fund, it places the fund and the manager of the fund under a legal obligation to operate in accordance with an investment code identical to or substantially similar to CDC's Investment Code. These obligations may be included in the core legal documents for the fund or in a side letter agreement. The only exception to this is where CDC is a late stage investor in a fund which is already operating in accordance with the ESG principles of other DFIs which are broadly similar to CDC's Investment Code.

When a fund invests in a portfolio company where it has effective control or significant influence, CDC requires the fund manager to procure an 'investment undertaking' from the portfolio company that it will operate in line with the fund manager's investment code.

This is to allow CDC to exercise a degree of influence on ESG standards at portfolio companies. With this commitment, CDC expects its fund managers to build awareness among portfolio companies on waste reduction, pollution control and energy consumption as well as adequate safeguards for the wellbeing of employees and local communities. It also allows CDC to be positioned closer to portfolio companies than is typical for a fund-of-funds.

CDC requires its fund managers to consider ESG matters in all of their investment activities

Fundraising – CDC investment	Due diligence	Investment	Investment management	Exit
• Formal agreement with CDC to commit to the Investment Code – by CDC's standard side letter or equivalent • Investment strategy in line with CDC's exclusion list • Awareness of ESG risks and opportunities and how portfolio companies should address these, e.g. if investment strategy includes high risk sectors like oil and gas, mining, or large scale agribusiness • Awareness of country/regional ESG risks	• Assess new investments on ESG matters: > sector risks > issues or opportunities to add value > quality of investee company ESG management systems • Give new investments a risk rating on ESG matters to determine the appropriate level of management and monitoring	• Where fund managers have effective control or significant influence, procure an investment undertaking from portfolio companies in line with CDC's Investment Code • Assist portfolio companies to develop action plans to address any ESG issues identified during due diligence, with appropriate targets and a timetable for improvements	• Encourage managers of portfolio companies to: > adopt and implement sound ESG policies > work towards continuous improvements • Monitor portfolio companies performance on ESG and progress towards action plans for improvements • If ESG issues arise, assist portfolio companies to address them in a timely manner • Report annually to CDC • Monitor and record any serious ESG incidents in portfolio companies and inform CDC	• Consider ESG matters at divestment: > any ESG issues with potential buyers? > will sound ESG practices continue under new owners?

The procurement of a signed investment undertaking is a requirement only in cases where a fund manager is considered to have 'significant influence' over a portfolio company. Usually such influence stems from one of the following factors:

- an ownership interest in the portfolio company in excess of 20%; or
- board representation allowing for participation in financial and operating policies; or
- rights to influence pursuant to a shareholders' or similar agreement.

CDC recognises that its fund managers invest in companies ranging from SMEs to large enterprises with a significant regional presence and across every industry sector. Consequently, fund managers do not always have effective control or significant influence and may not be in a position to procure a written undertaking from portfolio companies. This in no way diminishes the responsibility of fund managers to work to ensure that the companies in which they invest CDC's capital operate in line with CDC's Investment Code.

ESG risk rating of portfolio companies
By promoting good business practices in poor countries, CDC's investments contribute to development. Environmental and social risks are typically low for investments in financial institutions, media, information and communications technologies or retail. CDC recognises however that some industry sectors are inherently of greater ESG risk than others.

Industries that typically have high ESG risk include:

- industries with high risks of pollution;
- activities which affect the natural environment;
- resource intensive industries;
- businesses which use low skilled workers in countries with weak employment legislation;
- businesses which involve workers handling hazardous substances;
- businesses which can pose health and safety dangers for consumers; and
- sectors that involve large contracts, particularly those involving governments.

In 2009, CDC obtained sufficient data from fund managers and evaluation reports to complete a comprehensive ESG risk rating of the portfolio. In total, CDC obtained risk ratings from 542 companies across CDC's portfolio, of which a total of 50 companies were rated high risk for environmental matters, 26 for social matters and 29 for corporate governance. A total of 85 companies in CDC's portfolio were found to be high risk on one or more ESG rating.

CDC also performed an analysis of industry sectors with high ESG risks. Mining is the riskiest sector with 62% of investments categorised as high risk. Energy and utilities follows at 45% and agribusiness at 38% of investments rated as high risk. This sector overview of risk rating shows consistency across the various funds managers and individual funds. This consistency suggests fund managers have a good understanding of CDC's risk rating guidance material and how to apply it to their portfolios.

ESG support for fund managers
CDC invests across a wide range of industry sectors and works closely with its fund managers to monitor companies' ESG performance, address issues when they arise and to ensure support is sought for industries with high ESG risk.

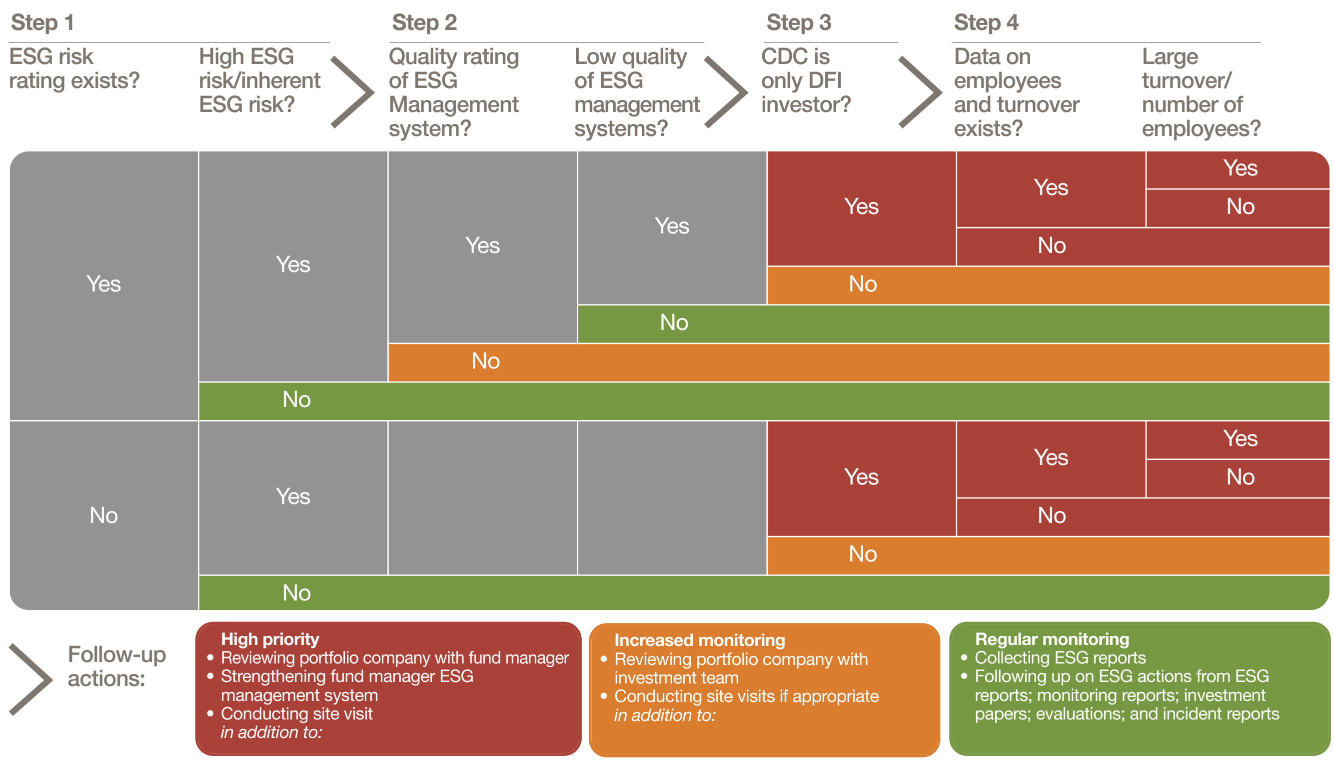
Building on this existing work, the ESG risk rating analysis can be used to target portfolio companies for site visits and fund managers for additional support. This system will bring CDC's expertise and support to where it is most needed across the portfolio.

A specific resource for fund managers is CDC's Toolkit for fund managers to address ESG risks. More details on the Toolkit can be found in chapter 5 of this report, as well as on CDC's website.

An additional resource is the large number of case studies available on CDC's website. These examples demonstrate success stories and lessons in addressing ESG risks and opportunities. They also show how responsible business practices can attract international customers, reduce risks, build stronger brands and often also reduce costs.

An example of how good ESG practices can contribute to a company's success is illustrated by CDC's investment in Truong Thanh Furniture Corporation (TTFC). The case study on the following page describes this investment in more detail.

CDC's step-by-step risk rating process for portfolio companies



*Catalytic effect is not considered for funds where CDC has entered in the final close, hence the number of funds rated on catalytic effect is fewer than for the other performance measures.

About CDC continued

Truong Thanh Furniture Corporation (TTFC), Vietnam

A successful furniture manufacturer with a keen environmental awareness

Vietnam is an emerging economy in South East Asia and an increasingly popular destination for foreign investment. Nonetheless, over 23% of the 87 million population live below the US$1.25 a day poverty line. The main economic drivers are primary industries such as rice, coffee and fish as well as garments and petroleum. Furniture manufacturing is not currently included on this list despite the relative abundance of both local and imported timber. TTFC with its seven factories and approximately 6,500 employees at the end of 2009 marks a significant shift in utilising this valuable natural resource responsibly.

CDC's fund manager, Aureos invested US$3m in TTFC in 2006 in order to help the Company expand its operations. In particular, the funds financed the construction of new modern factories in Daklak and Binh Duong. These factories have enabled the company to establish a competitive advantage, offering salaries that compete well with the rising manufacturing salaries in Vietnam. With the help of further private sector investment, TTFC also completed the construction of a training centre in 2007. This training centre has helped address the shortage of skilled labour that affects the furniture manufacturing market.

The Company's expansion was achieved despite the Global financial crisis affecting exports. TTFC currently exports approximately 70% of products to more than 30 countries worldwide. Consequently, the recent market turbulence has affected the Company's profit margins. Despite the additional strain resulting from the financial crisis, the Company recorded a robust rise in turnover in 2009 and remained profitable thanks to its effective change in strategy. Employment at TTFC has also grown significantly in 2009 with the full operation of the new factory in Binh Duong Province, and with it opportunities for previously unskilled labourers in Vietnam.

TTFC has successfully developed its brand in local and international markets during the past few years based on its commitment to sustainable practices in sourcing the timber as well as managing its workforce. When in March 2008 the Environmental Investigation Agency (EIA) published a report into Vietnam's timber industry, the findings were that 500,000 cubic metres of illegal logs were smuggled into Vietnam each year. Eight major furniture companies were cited in this report, which was damaging to the whole industry. TTFC, however, was not included on this list. The company has also received various awards from the Vietnamese government attesting to its quality and success. TTFC is recognised as an industry leader.

What has really set apart TTFC from its competitors is the attention the company pays to its social and environmental impact. The company is ISO 9001 certified reflecting improvements in production knowledge and quality management. The company has also gradually applied Social Accountability 8000 (SA 8000[1]) in an attempt to provide decent working conditions for its employees. Following a recent review, TTFC has implemented all the health and safety recommendations suggested by Aureos. Further, the company has introduced annual health checks for its workforce.

On the environmental side, TTFC has developed a system to allay concerns over the sourcing of wood used in its manufacturing process. The system is designed to ensure that all wood used in furniture manufacture is sustainably sourced. The plan was developed with the World Wildlife Fund (WWF) and the Vietnam Forest and Trade Network. Already the programme has seen significant results and in 2008, the compliance manager reported no timber purchases from unapproved sources.

As a critical input for its success, TTFC has been extremely active in forestry management. In total, the company has been approved to grow 100,000 hectares of forest in Vietnam. This includes management of two-to-four year old trees on an existing forestry plantation and an approved 40,000-hectare plantation project in Phu Yen province. In an industry that has come under intense scrutiny, TTFC's projects are pioneering and point the way towards a more sustainable future for Vietnamese furniture manufacturing. As these standards are necessary for reaching new international export markets, TTFC is well placed to continue its development and emerge stronger from the recent global crisis that had severely affected Vietnamese exports.

Key data

Investment:[2]	US$3.0m
Investment period:	2006 - present
Sector:	Furniture manufacturing
Fund manager:	Aureos
Employment:[3]	6,500

1 The SA 8000 certification is a leading standard for managing human rights in the workplace.
2 US$3m was invested by Aureos. CDC's investment in Aureos South East Asia Fund is US$20m; total fund size is US$70m.
3 2009.

Furniture manufacturing at TTFC

Chapter 2

CDC performance

CDC assesses the development impact of its capital across a number of measures. These include financial performance, economic performance, ESG performance and the broader impact of capital on the development of the private sector in developing economies. Various examples of CDC's impact on these measures are discussed in this chapter along with more in-depth analyses of the factors that help to drive performance.

Examples of the role CDC's capital can play in developing promising businesses are also included for illustration.

Chapter 2: CDC performance

CDC assesses its development outcome across four dimensions – financial, economic and ESG performance and private sector development. 2009 showed a stronger financial performance, an increased number of jobs created and taxes paid, several achievements in improving ESG performance and continuous development of local capital markets. Initial analyses also suggest a correlation between ESG management systems and financial performance.

Financial performance

This section examines CDC's financial performance in 2009 in comparison with previous years and comparable emerging markets indices. There is also an analysis of potential explanatory factors behind CDC's financial performance. Additional information on financial performance can be found in CDC's Financial Review and Annual Report and Accounts.

Why financial performance matters
Financial performance is essential to CDC for four principal reasons:

- building sustainable companies: CDC's mission is to foster growth in sustainable businesses, helping to raise living standards in developing countries. Portfolio companies therefore have to be developmentally and financially successful to provide a lasting contribution to society. Only then will there be a sustainable and lasting source of income to raise living standards in the emerging markets where CDC's fund managers invest;
- building lasting capital markets: As a fund-of-funds, CDC supports the growth of companies as well as the development of local and regional capital markets. It is therefore essential that the fund managers are able to generate financial returns in responsible businesses to be sustainable and to raise capital for local investments;
- attracting third party capital: In most emerging markets there is insufficient access to finance for local businesses. More investors are needed to address this gap including private investors. They will only come in if there are opportunities to generate financial returns through investments in commercially viable and successful companies. CDC therefore needs to demonstrate returns from its portfolio to attract investors to a range of markets, sectors and asset types; and
- investing increasing amounts of CDC capital in emerging markets: By generating returns from its investments and re-investing the proceeds CDC provides ever larger amounts of capital to emerging markets without any additional contributions from the UK government.

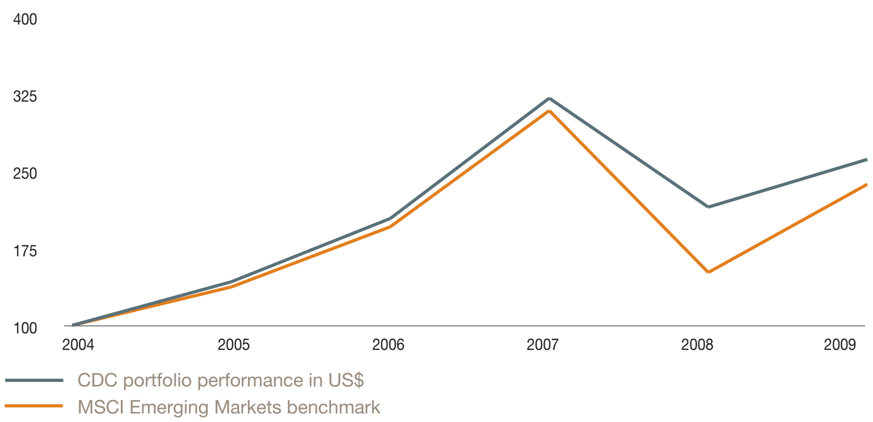
Portfolio financial overview
2009 began in the midst of the worst financial crisis in decades. In comparison to 2008, CDC's performance in 2009 represented a strong recovery. Key highlights were as follows:

- total return for 2009 was £207m compared to a loss of £359m in 2008. This represents an average annual return of 16% over the past five years;
- new investments in 2009 totalled £359m. This represents a decrease of 18% on 2008 levels but £35m above the average annual investment for the period 2004 to 2008 of £324m;
- new investments on a five-year rolling basis stood at 75% in low income countries, exceeding the rolling five-year target of 70%; and
- new investments on a five-year rolling basis stood at 64% in sub-Saharan Africa and South Asia in 2009, exceeding the rolling five-year target of 50%.

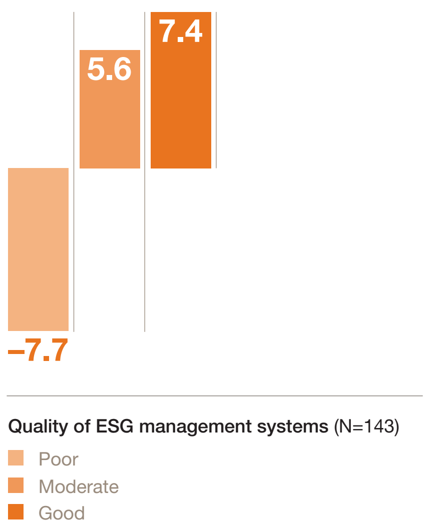
MSCI index performance
Whilst CDC has traditionally used the MSCI Emerging Markets US$ index to measure its performance, individual country weightings within the index are not really representative of the geographical spread of CDC's actual investment universe. In particular, the index does not include many low income countries in Africa and Asia. As a result, Morgan Stanley, in conjunction with CDC developed in 2009 an index more appropriate to CDC's geographical spread. In 2009, this new MSCI CDC weighted index rose by 57% in comparison to a fall of 51% by the same measure in 2008. Whilst CDC's portfolio performance was less than its MSCI benchmarking in 2009, on a three year rolling basis it was 6% ahead of the benchmark.

Performance analysis
An analysis of CDC's portfolio companies suggests there is a correlation between companies with higher financial returns and companies with relatively better Environment, Social and Governance (ESG) management systems. This analysis is based solely upon the 345 companies in which CDC's fund managers invested during the period 2003-07. This excludes companies in

CDC return over 5 years versus market index (MSCI)



ESG management systems and portfolio company returns (mean IRR, %)



which CDC was invested before the start of the intermediated model. Excluded are also investments after 2007 as Internal Rate of Return (IRR) estimates are less reliable for newer investments.

The analysis shows that companies with good ESG management systems outperform those with poor systems by 15.1% in IRR. When controlling for average income levels in different countries the trend stays the same. There is still a correlation between companies with good and poor ESG management systems respectively and the financial returns they generate.

One possible explanation might be that more financially successful companies are better managed. These companies could for example also have rigorous and comprehensive management systems for operational performance, customer relations, staff training and other areas. The improved performance could thus stem from generally better processes and systems. The attribution to these various management systems including ESG would in such cases require a more comprehensive sample of data and further analysis.

Performance improvement over time
To help identify if there is a causal link between good ESG management systems and financial performance it is useful to introduce a time dimension. All else being equal, the cause should come before the effect. In other words, if a good ESG management system indeed explains better financial performance, then the ESG management system (the cause) would have come into place before financial returns (the effect) improve.

Analysis of portfolio data also reveals a potential correlation between the length of time over which a company has had or pursued good ESG management systems and financial returns. The graph below suggests that there is a correlation between improving financial performance of a company over time and the presence of any ESG management system – be it of poor, moderate, or good quality.

It might seem as if the overall IRR is driven by the year of investment. A control sample of 396 companies without ratings for ESG management systems has therefore been included. The financial performance for this sample develops in the opposite direction. This result therefore does not contradict the initial assumption that any ESG management system and good ones in particular, might contribute to better IRRs. Conversely it does not confirm the initial assumption either. There might be several reasons why the IRR for this non-rated group of companies develops this way over time. One plausible explanation is that there is less data available as a result of possibly non-existent management systems in general. The initial IRR estimates might therefore prove optimistic. As more information becomes available over time including actual performance data the IRR estimates become more accurate.

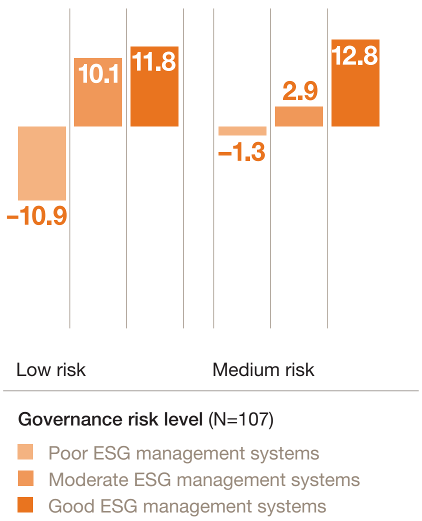
Governance risk, ESG management systems and IRRs
Governance risk relates typically to how well defined roles and responsibilities are in a company, how well management information systems and reporting works and the level of availability, transparency and consistency of information. An initial analysis of portfolio data seems to suggest there is a close co-variation between ESG management systems and governance risk as the graph below shows. Two preliminary conclusions are that ESG management systems and the lowering of governance risk both contribute to higher IRRs. What is not clear from the analysis is the extent to which these two factors influence each other. This analysis does however have several limitations and alternative or complementary possible explanations and will be subject for further analysis in 2010.

Conclusions and next steps
These analyses constitute a first attempt at building a better and more quantitative understanding of our portfolio and financial performance. There are limits to the insights that can be drawn from this analysis of some of CDC's portfolio companies. The most apparent constraints include the following:

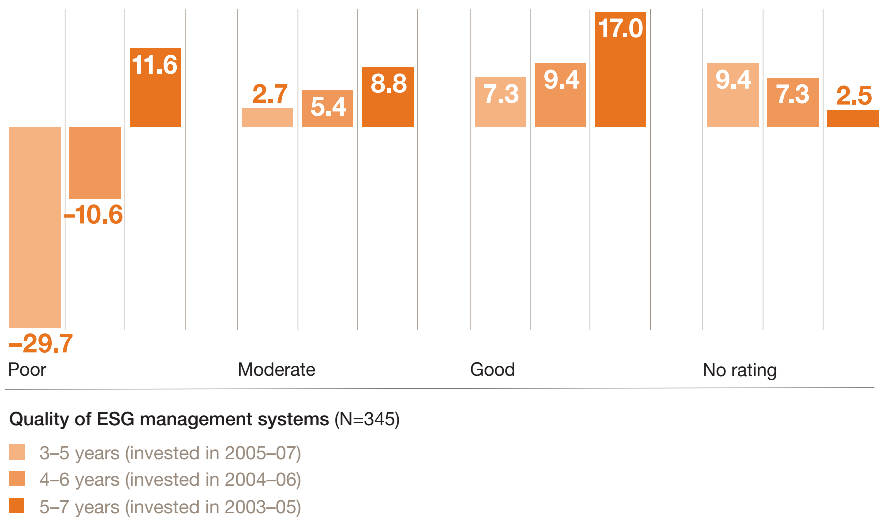
- performance over time: It would be useful to track the IRRs of the same companies over time to reduce the impact of other influencing factors;
- IRR estimates: These are estimates and the realised IRR will only be known once an investment has been exited which introduces uncertainty to the analysis;
- ESG management system ratings: This is not an exact science, nor perfectly consistent across the portfolio as it is done individually by each of CDC's 65 fund managers for their respective portfolio companies. In addition, for the sample used in this analysis it has been assumed that the ratings have remained constant over time, which may not always be the case;
- sample size: The relatively small sample size limits the statistical significance of any conclusions. This is even more the case once the analysis is further refined by year of investment, industry sector and geography; and
- external factors: There is a multitude of external factors which influence the financial performance of any company including exchange rate changes, political developments, competition, regulatory environment and technological change to name the most obvious.

CDC will progress and improve the analysis of its financial performance over the next year. It would be beneficial to expand the number of companies in the analysis, which would be most effectively achieved in collaboration with other Development Finance Institutions (DFIs). Other priorities include collecting more data for each company; rating the ESG risks and management systems for the entire portfolio; and strengthening the consistency of this process.

Governance risk, ESG management systems and IRRs (mean IRR, %)



ESG management systems and portfolio company returns – performance improvements over time (mean IRR, %)



CDC performance continued

CDC's largest investments

The following is a list of CDC's ten largest investments in terms of portfolio value. CDC supports investments in a broad range of sectors and believes such an approach is beneficial from a commercial, a developmental and a risk management perspective. CDC's fund managers make investments in companies of different sizes, investing in large companies as well as SMEs and microfinance institutions. Some sectors are relatively more capital intensive than others and include power plants, utilities companies, power distribution entities and some manufacturing and process industries, as evidenced in the table below.

Company	Description
Paras Pharmaceuticals Invested by Actis Emerging Markets Fund 3; Actis India Fund 2; Actis India Fund 3; Actis South Asia Fund 2; Actis Umbrella Fund; Aureos South Asia Fund	A leading Indian company producing over the counter healthcare and personal care products. Successes for Paras include the painkiller Moov which has taken market share from multi-national companies and further innovative products in new markets for hair and skin care.
Globeleq Generation Limited Invested by Actis Infrastructure Fund II	Globeleq develops, owns and operates power generation facilities across emerging markets. Globeleq currently owns Songas (a 190MW gas-fired generation project located in Tanzania) and has interests in two other power projects: Tsavo (a 74MW heavy fuel oil-fired power station in Kenya); and Azito (a 288MW gas-fired power project in Côte d'Ivoire).
Alexander Forbes Invested by Actis Africa Empowerment Fund; Actis Africa Fund 2; Actis Umbrella Fund; Canada Investment Fund for Africa; Ethos Fund V	A diversified financial services company that operates as an intermediary in the investment and insurance industries. Alexander Forbes is represented in 30 countries with the majority of its operations in South Africa.
DFCU Invested by Actis Africa Fund 1	DFCU was founded in 1964 by CDC and the Ugandan Government. It is a commercial bank operating in leasing, housing finance and term lending.
Diamond Bank Invested by Actis Africa Fund 2; Actis Umbrella Fund; Canada Investment Fund for Africa	Diamond Bank is the ninth largest bank in Nigeria (with a subsidiary in Benin Republic), with a strong focus on the SME and corporate sectors. The bank currently has 120 branches, 1,800 staff and a 5% market share.
ACTOM (formerly Alstom Electrical Industries) Invested by Actis Africa Fund 3; Actis Emerging Markets Fund 3	A major South African electrical engineering, manufacturing, distributing and contracting company for the power sector. The business has 22 production facilities, 26 operating units and 21 distribution centres employing over 5,000 people.
Seven Energy Invested by Actis Africa Fund 2; Canada Investment Fund for Africa; Actis Umbrella Fund	An upstream oil and gas company initially focused on Nigeria but with the ambition to expand in West Africa. The company has rights to a 40% interest in the undeveloped onshore Uquo Field to the east of the Niger Delta.
Orascom Invested by Actis Africa Fund 1	The market leading mobile operator in Algeria with over 14m subscribers (as at November 2009). The company provides a range of prepaid and post paid voice, data and multimedia telecommunication services.
Commercial International Bank Invested by Actis Emerging Markets Fund 3; Actis Africa Fund 3	The largest private sector commercial bank in Egypt. It has over 150 branches, over 450 ATMs and over 4,000 employees serving 700 corporate customers, 400 small and medium enterprise customers and 380,000 retail customers.
Regal Forest Invested by Actis Latin America Fund 1	A leading retailer of white and brown goods, electronics and furniture (durable consumer goods) in El Salvador, Honduras, Guatemala and Nicaragua, with a market share of around 30% in each country.

Economic performance

Economic factors are crucial for growth. The World Bank survey 'Voices of the Poor' suggests that 70% of the world's poor believe the best way of escaping poverty is to find employment[8]. A Gallup survey of more than 26,000 people in 26 countries in sub-Saharan Africa identified jobs for the young as the fourth most important priority, after factors such as reducing poverty and hunger[9]. Taxes are also vital for public services, infrastructure, innovation and a stronger link between state and taxpayer.

CDC assesses, where possible, the wider benefits from the companies supported by its capital both to the economies where they operate and to the people working for them. However, because CDC invests through an intermediated model and does not wholly own the underlying portfolio companies, quantitively accurate and reliable estimates of employment maintained or created or tax revenues generated by CDC's investments is not possible. Nevertheless, as the employment and tax data reported to CDC for 2008 comes from a large sample of portfolio companies, it is an important indicator of the number of people that sustain a livelihood with financial backing from CDC and the amount of tax revenues that benefit local governments from companies where CDC's capital is invested.

Collecting data across a portfolio of over 794 companies, 134 funds and 65 fund managers is a challenge. Different companies across CDC's portfolio have different year ends, something that makes it difficult to obtain data at a single point in time. CDC also gathers specific measurements for different sectors and asset classes, especially small and medium sized enterprises (SMEs), microfinance and mining companies. The data presented below was collected during 2009.

The first annual ESG report from a fund is due one year from the first investment of the fund into a portfolio company. Some of our new fund managers had not yet been invested in any of their portfolio companies for a full year and were thus not required to provide an ESG report. However, all fund managers who had been invested for more than a year in any portfolio company duly provided the required ESG reports. Such reporting is a condition for receiving capital from CDC. Only nine fund managers did not report any economic data on portfolio companies in 2009. All were recent fund investments from which no reporting was expected over the period and many had no current investments.

Taxes and employment

CDC received employment data from 617 companies in 2009 as opposed to 514 in 2008. The aggregated figures reveal that 733,000 people were employed across CDC's portfolio companies and US$2.8bn was paid in taxes by the 463 companies which reported data.

The 308 portfolio companies supported by CDC's capital across India, China, other Asian countries reported a combined workforce of 562,000 people. This equates to an average company workforce of 1,825.

The average workforce in CDC's portfolio companies in sub-Saharan Africa is significantly smaller. Only 125,000 employees were reported in the 255 portfolio companies who provided data, which corresponds to an average of 490 employees. This can be partially explained by the fact that CDC has invested in three dedicated SME funds in sub-Saharan Africa.

Examples from evaluation reports

From the evaluation work in 2009, CDC gained more information about the economic effects of many of its portfolio companies. Three examples are given below:

China – a seafood processing company in Dongshan province has seen employment increase 85% since investment by CDC's fund manager in 2007. The company now employs over 1,200 people. Despite difficult global conditions affecting exports to the US, Europe and Japan, the financial performance of the company continues to be strong. The company was recently awarded with China's 'Famous Brands' and Fujian 'Top 20 Golden Enterprise' awards in recognition of its efforts.

Brazil – a telecommunications company saw employment rise by 400 between investment in 2007 and the end of 2008. Employment conditions at the company have also improved. It has signed both a collective labour agreement and is providing an annual health check for its employees. Almost US$30m in taxes was paid by the company to the Brazilian government over this period.

East Africa Gold Mines, Tanzania – a gold mining company in which CDC invested in 1999 helped establish Tanzania's gold market. This market, practically non-existent in 1999, brought as much as US$763m into Tanzania in 2007. The company's North Mara mine is estimated to have paid US$30m in taxes and royalties to the Tanzanian government. Between 1999 and 2003, employment at the site increased by 385.

Employment by industry sector (000s)

Sector	Employment (000s)	Companies reporting / total
Consumer goods & services	184	94/121
Industry & materials	133	108/129
Agribusiness	114	30/40
Financial services	96	150/206
Mining	57	21/25
ICT	40	62/73
Healthcare	39	28/38
Microfinance	36	41/55
Energy & utilities	15	44/50
Cleaner technologies	10	12/18
Infrastructure	9	27/39

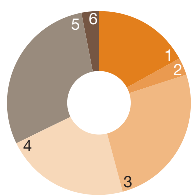
■ Number of companies reporting data
■ Number of total CDC portfolio companies in sector

Taxes paid by industry sector (US$m)

Sector	Taxes (US$m)	Companies reporting / total
Financial services	736	71/206
ICT	512	50/73
Consumer goods & services	325	80/121
Agribusiness	315	25/40
Mining	272	16/25
Energy & utilities	269	35/50
Industry & materials	147	98/129
Cleaner technologies	76	11/18
Infrastructure	70	23/39
Healthcare	68	23/38
Microfinance	51	31/55

■ Number of companies reporting data
■ Number of total CDC portfolio companies in sector

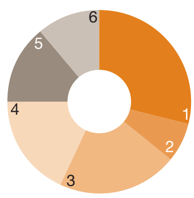
Employment by region



1 Sub-Saharan Africa **125,000 (255/318)**
2 North Africa **23,000 (25/28)**
3 China **192,000 (93/112)**
4 India **158,000 (125/167)**
5 Other Asia **212,000 (90/112)**
6 Latin America **23,000 (29/57)**

(number of companies reporting data/number of total CDC portfolio companies)

Taxes paid by region (US$m)



1 Sub-Saharan Africa **832 (162/318)**
2 North Africa **209 (22/28)**
3 China **591 (73/112)**
4 India **527 (101/167)**
5 Other Asia **381 (78/112)**
6 Latin America **301 (27/57)**

(number of companies reporting data/number of total CDC portfolio companies)

CDC performance continued

CDC has many examples of case studies in its portfolio companies which are designed to inspire and encourage investors. Some are past investments that have had a meaningful impact on a national economy. G.E.T Power is one such case.

G.E.T Power Private Ltd, India

Providing power to rural India, serving half a million poor households

The lack of reliable and safe power in poor countries is a major barrier to growth. Significantly increased investment in power is particularly important for India's development where over half the population does not have access to reliable and safe electricity. Electricity is needed to power small industry and enterprise, run health clinics and light schools. Without access to reliable electricity, rural poverty will not be eradicated.

India has a population of over 1bn. An estimated 42% of the population lives below the poverty line. In addition, more than 400 million people, mainly in rural areas where the majority of India's population is based, lack access to electricity. Even where access does exist, it is often substandard and outages in excess of 12 hours are commonplace. Indian government policy has a stated aim, under its 'Power for All' agenda, of providing access to electricity for all citizens by 2011.

G.E.T Power is an Indian service provider in electricity transmission and distribution. It specialises in the design, engineering and construction of electrical substations and transmission lines. It has installed over 600 substations and 5,000 circuit kilometres of transmission line since beginning operations in 1987.

Three years ago, G.E.T Power entered the rural electrification sector with an investment from CDC's fund manager Avigo. Including the executed and ongoing projects, G.E.T Power has 21 projects involving an investment of US$150m. This infrastructure will provide electricity to around half a million rural households below the poverty line. Rural electrification projects now account for some 60% of G.E.T Power's revenue.

G.E.T Power also has substantial experience in the transmission of power generated by wind farms to the Indian utility grid. Wind energy is an important source of power generation in India accounting for 6% of total installed power capacity.

G.E.T Power has experienced substantial growth over the past two years and staff numbers have increased 90% to 453 permanent employees and approximately 2,000 contractors. G.E.T received their second Safety Excellence Gold Award from Leighton Contractors India for accomplishing 2,600,000 hours without lost time due to injury between May 2007 and February 2008.

CDC's fund manager, Avigo, has made significant contributions to the development of G.E.T Power, providing advice and assistance on matters of corporate governance, strategy, business development and management recruitment. Avigo's investment was used to assist G.E.T Power to strengthen its balance sheet and contributed to the company's transformation from a sub-contractor to a primary contractor.

G.E.T Power plans to expand further its operations over the coming years to provide electricity to more Indian households.

Key data[1]

Investment:[2]	US$16m
Investment period:	2007- present
Sector:	Infrastructure – Power distribution and transmission
Fund manager:	Avigo, SME Fund II
Employment:	453 permanent
Employment growth:[3]	213
Turnover:	US$74m
Turnover growth:[3]	US$53m
Taxes paid:	US$2.5m

1 2009 figures unless otherwise stated.
2 US$16m invested by Avigo. CDC's investment in Avigo (SME Fund II) is US$20m; total fund size is US$125m.
3 2007-09.

One of G.E.T Power's 600 substations

The majority of G.E.T Power's electricity is provided to rural areas

2009 evaluation results on economic performance

To evaluate a fund's economic performance, CDC assesses the extent to which jobs have been created within portfolio companies, the amount of tax revenue generated and the increase in portfolio companies' turnover and profitability. A more detailed explanation of CDC's evaluation and performance ratings is provided on pages 23 and 24.

Of the 20 funds evaluated in 2009, two funds received the highest rating 'excellent' and a further nine were rated as 'successful'. One of the two funds rated 'excellent' was a specialist SME fund which saw the creation of nearly 2,000 jobs across East Africa, a considerable achievement in a difficult sector. The remaining nine funds were all rated 'satisfactory'. Some aggregated results from the evaluations are presented below:

- 77% of portfolio companies showed employment growth with 87,000 new jobs created;
- only 8% of portfolio companies decreased their number of workers, with 4,300 jobs lost;
- 82% of the portfolio companies experienced growth in turnover – only 5% saw a decrease;
- 68% of portfolio companies demonstrated growth in profitability as measured by EBITDA, while 25% saw a decrease; and
- a total of US$122m in taxes was paid by 15 companies that reported this data in the past year. Over US$3bn in taxes was paid by 179 companies over the holding period of the fund manager.

ESG performance

In 2009, CDC continued its work prior to making commitments to new funds to ensure that fund managers have well-developed management systems to address ESG risks. CDC continues to help portfolio companies realise improvements for the duration of the investment as stipulated by CDC's Investment Code. There was a significant increase in the number of ESG reports submitted in 2009 compared to prior years. However, the quality of reporting varies across the portfolio. Whilst all fund managers from whom a report was expected contributed something, 11 fund managers did not produce full ESG reports. In many cases, this means that ESG risk was reported but there were limited justifications or discussion of actions for improvement. CDC will continue to work with its fund managers to promote better annual reporting on ESG matters.

The promotion of good ESG practices can be a particular challenge for funds where CDC is a small investor amongst larger commercial investors. This has not prevented CDC from attempting to raise best practice. In 2010, CDC will further assist fund managers through a comprehensive training programme backed by the new Toolkit for fund managers.

In addition to educating fund managers to assess an investment for ESG risk, the Toolkit will also advise about best international practices as specified in CDC's Investment Code. This will include resources on international conventions such as those produced by the International Finance Corporation (IFC), the International Labour Organization (ILO) and core environmental standards which serve as benchmarks for investors in the emerging markets.

2009 evaluation results on ESG performance

Of the 20 funds assessed in 2009, one fund was rated 'excellent' in terms of its ESG performance, seven funds were rated as 'successful' and four rated 'below expectations'. Typical reasons for a 'below expectations' rating include the fund manager performing beneath the high standards CDC expects on ESG issues. The remaining eight funds evaluated were rated as 'satisfactory'.

In terms of portfolio companies, 71 of the 238 companies for which there was information available were rated as high risk from one or more ESG perspectives. Possible reasons for a high risk rating include the potential for significant adverse environmental impact, potential risk to the local community or to the workforce or issues related to corporate governance and business integrity. 120 companies were rated as medium risk and 47 as low risk.

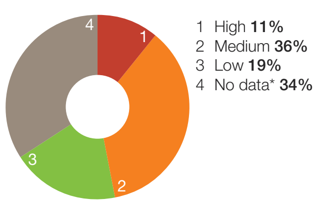
Of the 234 companies reporting relevant data, 73% of evaluated companies had ESG issues at the time of investment:

- 44% had environmental issues;
- 44% had social issues; and
- 36% had governance issues.

Of these companies, 83% had observed and reported ESG improvements since investment:

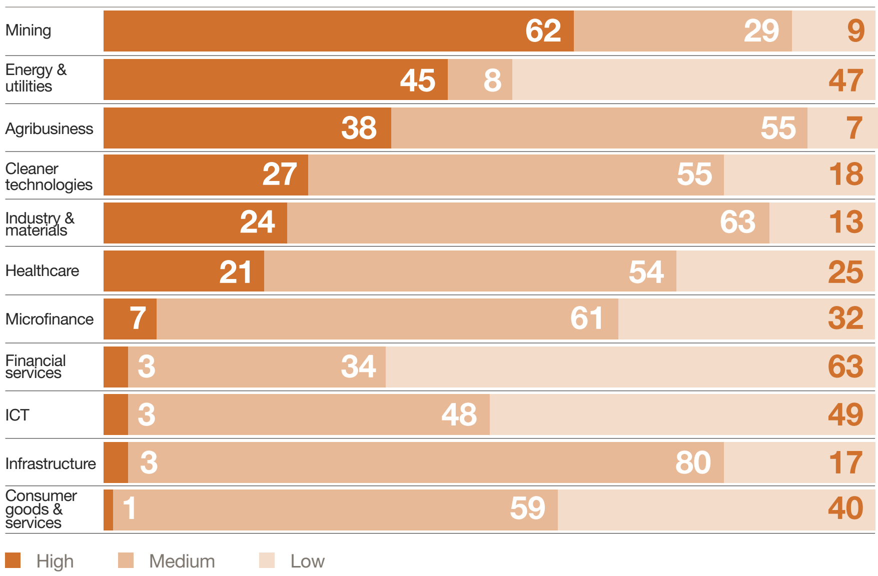
- 45% had reported environmental improvements since investment;
- 61% reported social improvements; and
- 53% reported governance improvements.

ESG risk rating of 794 portfolio companies (%)



*CDC assesses companies with no data by inherent risk. Many of these companies are in SME funds or are 2009 investments.

Distribution of high risk assets by sector for companies reporting data (%)



CDC performance continued

Examples of insights related to ESG matters included in the evaluation reports are given below.

Environment

Kenya – over the course of the investment period at a leading Kenyan dairy, considerable improvements were made to the water treatment facilities. In particular, attention was focused on the biodegradation of wastewater before it was discharged to local ponds. Treated water can and is used for local irrigation, watering of gardens and for equipment cleaning. Moreover, the dairy actively promotes environmental initiatives in the local community. One example is the installation of recycling bins at shops to encourage the recycling of milk bottles.

South Africa – a platinum mining project was located near a major game park and an animal migratory path. In order to obtain a licence to develop a mine, the company had to undertake discussions with multiple local stakeholders and engage in an approval process which ensured that development of the mine adhered to strict environmental regulations and did not negatively impact on the game park and the migration route.

China – the manufacturing of galvanised steel sheets generates significant waste products and requires careful monitoring. A Chinese manufacturer in which CDC is invested has introduced an acid regeneration process to reduce its waste outputs.

Social

Kenya – a Kenyan agribusiness company in which CDC was invested developed a medical centre on site catering to both employees and non-employees. The centre provides free testing, counselling and assistance for HIV/AIDS and other illnesses, in particular malaria and typhoid. The company has collaborated with an orthopaedic workshop which manufactures prosthetic limbs and other medical devices such as braces, boots and crutches for victims of polio. The site has also developed a programme providing assistance and equipment to disabled children in rural villages for whom such assistance had previously been inaccessible and often unaffordable.

Nigeria – a manufacturer of foam mattresses has appointed a health and safety manager and two qualified environmental auditors. After a chemical exposure incident with a staff member, safety procedures within the facilities were more strictly enforced. The company is in the process of renewing both its ISO 9000 (quality) and ISO 14000 (environmental) certification. The manufacturer firmly believes that ESG factors are a differentiator in the market and has developed a low-priced product to anticipate market changes and to appeal to people on lower incomes.

El Salvador – during a due diligence visit by CDC, concerns were raised over some health and safety practices regarding the use of personal protective equipment and ventilation of spaces where potentially toxic chemicals were used and stored. A health and safety committee has been created to monitor issues and identify areas for improvement.

Governance

Malaysia – during the fund manager's due diligence process it emerged that the company held the passports of foreign contract workers for the duration of their employment. The company was a provider of high precision aluminium products for international oil and gas customers. CDC's fund manager recognised this as a direct contravention of ILO standards. Upon investment, the fund manager set a 100 day plan to phase out the practice. It also introduced safety storage lockers onsite to enable workers to store valuable items.

Kenya – in order to grow a family run orchard into a profitable medium-sized business, a number of improvements were required. These related particularly to the financial management and human resource management systems at the company. With the assistance of the fund manager, the company was able to create a professional management team and develop the requisite skills to run a professional business, including financial analysis and control, inventory management and contract negotiation.

China – at the time of investment by one of CDC's Chinese fund managers, an online retailer was a family run business in which corporate governance controls were weak. Since investment, professional managers have been brought into the company and the fund manager has also introduced institutional investors in a bid to further improve corporate governance.

Workers at Equatoria Teak

Manufacturing processes

Microfinance in Bangladesh

Serious incidents

A large portfolio distributed across several high risk environments[10]

CDC's capital is invested in 794 companies. 617 of these companies reported employment data last year and we know that they employ more than 733,000 people. Given the large number of employees, the large number of high risk sectors in the portfolio and the relatively higher levels of risk that characterise emerging markets, it is not unexpected that a number of CDC's fund managers have reported fatalities and other serious incidents in their portfolio companies. CDC requires its fund managers to report without delay any instance involving portfolio companies which results in loss of life, material effect on the environment, or material breach of law and how such an instance was dealt with by the fund manager. CDC takes each notification very seriously and follows up with the relevant fund manager to ensure that complete reports are written up (including police and other reports where applicable), that any underlying systemic reasons are identified and that corrective action plans are implemented to prevent reoccurrences.

Total number of incidents lower than in 2008

During 2009, four fund managers reported one or more serious incidents involving employees, sub-contractors and members of the public to CDC. A total of 30 fatalities were reported compared to 41 in 2008. In 2009 there was also one environmental incident and one case of alleged fraud. Fourteen of the 30 fatalities were accidents at work. Examples included three deaths caused by electric shocks when dealing with faulty electrical connections, three deaths from workers being trapped under heavy equipment, two deaths involving large machinery and conveyor belts and two deaths resulting from disregard for safety directives and training. Two fatalities occurred in connection with robberies when security guards employed by portfolio companies were shot and killed. Another six fatalities arose from road related accidents.

Managing high ESG risks and improvements over time

When investing in emerging markets CDC believes it is important to add value by reaching countries, regions and sectors where it can expand access to finance, make it more affordable and also bring other benefits to these markets. In such environments it is difficult to avoid the risk of fatalities and also important not to shy away from such cases. Rather, it is imperative to identify commercially viable businesses, with great potential to have significant development impact. It is also essential that the management shows a genuine willingness to improve its performance across ESG matters over time to ensure commercially, environmentally and socially sustainable development.

Benchmarking fatality rates against international data

It is relatively easy to benchmark health and safety performance across developed countries due to the rich data available. In emerging markets on the other hand there are no similarly comprehensive and reliable sources of data. IFC recommends using statistics from the US Bureau for Labor Statistics and the UK Health and Safety Executive. For the purpose of this benchmarking exercise CDC looked at the data used by HSE and in particular the Eurostat data for the EU 15 countries referred to on its website.

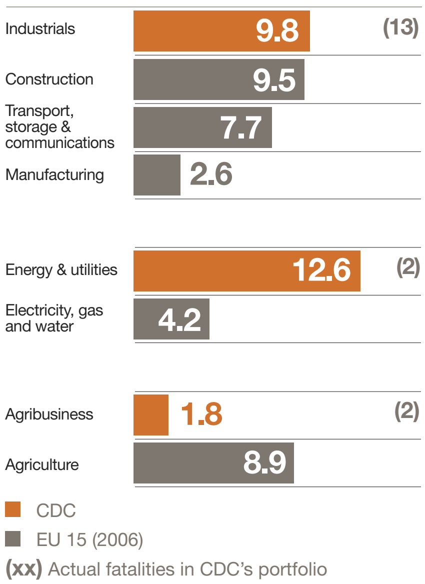
The overall fatality rate in CDC's portfolio is 3.14 workers per 100,000, which is 26% higher than the latest revised data for the EU 15 countries. While all fatalities are unacceptable, the reported level is close that of the EU 15 countries. However, it is possible that some fatalities go unreported and that the actual level is higher. CDC therefore frequently reminds its fund managers that all fatalities must be reported, including deaths of non-employees in connection with road accidents and other incidents where a portfolio company is not directly at fault to allow corrective action to be taken. A comparison of fatality rates below the overall portfolio level is difficult. A sector by sector comparison highlights sectors where there are relatively more challenges, but the small sample size limits the extent to which any additional insights can be drawn. As an example, the graph below to the left illustrates how one single fatality in the energy and utilities sector brings CDC's fatality rate for the sector above the EU 15 rate of 4.2.

Umeme update

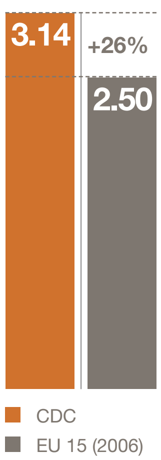
Umeme is Uganda's principal power distribution company, featured in last year's report. It manages a network which had suffered from years of underinvestment prior to CDC's investment in 2005. The resulting disrepair of the distribution network has resulted in high numbers of fatalities, often a consequence of fallen power lines. Measures Umeme has taken in response include:

- capital expenditure on replacing unsafe poles (72,000 to date 2005-09 out of a total of approximately 120,000 poles requiring replacement);
- working with the government to discourage a dangerous culture of stealing electricity; and
- a public education programme on the dangers connected with electricity and electricity supply.

Reported fatality rate per 100,000 workers: sector comparison



Reported fatality rate per 100,000 workers: CDC portfolio versus EU 15 data



CDC performance continued

Private sector development

Overview

Across its investment portfolio, CDC records information to assess whether its fund managers contribute to the strengthening of local capital markets. These assessments are made on a country level and for larger countries the regional level is also considered. Examples of countries where regional data is analysed include India, China, South Africa and Nigeria. Further benefits include the wide range of positive effects for consumers from expanded and improved access to goods, services and infrastructure and better and cheaper products and technologies.

Local capacity building

Economic growth in many emerging markets is hampered by underdeveloped capital markets to invest in local start-ups and provide growth capital for local companies. One of the contributions of CDC's intermediated model is to invest in local first time fund managers to develop these capital markets. An indication of success in this area is the number of first time fund managers backed by CDC. 58% of CDC's 65 fund managers are managing foreign institutional capital for the first time. Of the six new fund managers backed by CDC in 2009, five were first time teams.

All but two of CDC's private equity fund managers operate from local offices in emerging markets. They cover 37 developing countries, 14 of which are in low income countries including Côte d'Ivoire, Pakistan, Tanzania and Uganda. China, India and South Africa contain the largest number of local offices with over ten in each country. The offices of CDC's fund managers, which are mainly staffed with local investment professionals, make an important contribution to strengthening local investment capacities in countries where capital markets are traditionally weak and underdeveloped.

Successor funds

Developing local capital markets takes time. An indication of success over the longer term is therefore the extent to which CDC's fund managers have been able to raise successor funds. A total of 12 successor funds were raised from the 20 funds evaluated in 2009 with 82% of fund managers proving successful in this regard. US$3.4bn was raised in these successor funds with non-DFI capital accounting for 65% of this amount. In terms of committed capital, the following is summary information for the 20 funds evaluated in 2009:

- 70% of the US$3.5bn in committed capital to the fund was third party;
- 57% of this capital was non-DFI; and
- CDC committed a total of US$1.03bn.

19 of the 20 funds were assessed as 'satisfactory' or better on private sector development contributions. Two funds received the highest rating, 'excellent' whilst a further eight were awarded a 'successful' rating.

One of the funds rated 'excellent' has made a significant contribution to African-led private sector development in Africa and has helped professionalise the telecommunications industry in Nigeria and Angola. The other excellent rated fund has made significant strides towards professionalising the SME sector in East Africa and helping management at SMEs to formalise. The fund manager of this second 'excellent' rated fund has also expanded its operations to build a larger successor fund focused more broadly across SMEs in sub-Saharan Africa. In 2008, this fund manager won a prestigious award for best initiative in support of SME development in Africa.

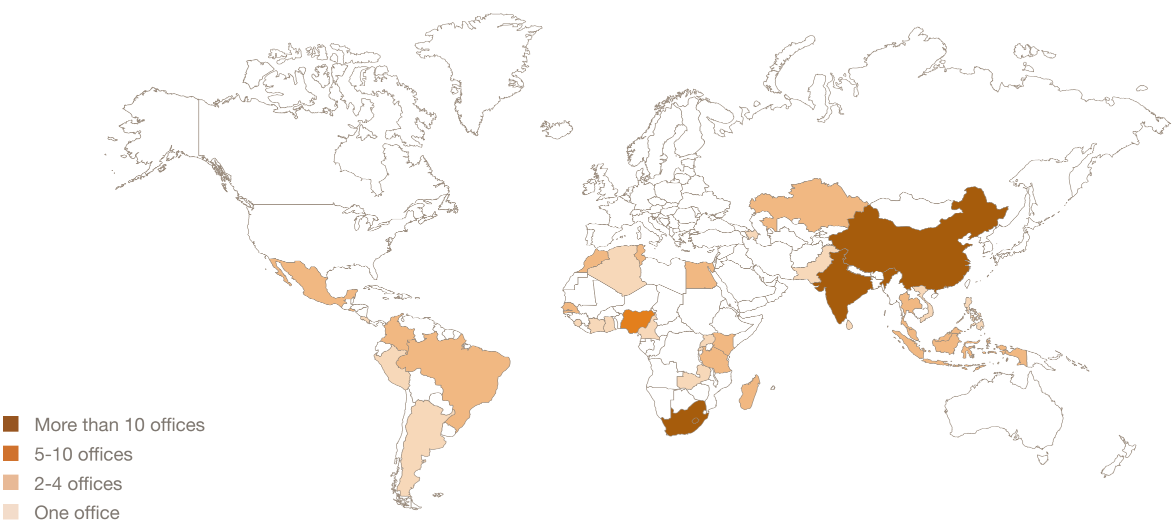
Examples from evaluation reports

Kenya – a CDC-backed financial institution in Kenya provides individual and SME loans to new businesses which would generally not qualify for banking services with other Kenyan banks or would not be able to afford the charges and interest imposed. This is driving competition in the industry and providing for a previously under-served sector of the population. The bank is presently adding approximately 5,000 new accounts daily and by showing that this sector can be served profitably, the thinking of financial institutions across the region is being transformed.

Cameroon – a pharmaceuticals company which receives investment from one of CDC's portfolio companies in Cameroon is having a strong impact in improving local regulatory standards. The company supplies generic drugs, produced under high quality, safe manufacturing conditions. This is important in a country where as much as 50% of medicines available are counterfeit.

Nigeria – a telecommunications portfolio company in Nigeria promotes the co-location of tower sites with mobile network operators (MNOs). Before entry into the market, there was no such service offered in Nigeria. The company benefits the MNOs by allowing them to focus on their core business of providing mobile telephony services and reduce the large expenditure required to build towers. In addition, the portfolio company has improved the operational efficiency of the tower sites – they have consistently achieved greater than 99% uptime on their own towers compared with approximately 75% on owner-operated sites.

CDC's 65 fund managers have local offices in 37 countries



Evaluations

CDC evaluates the impact of its funds to assess if investments have produced positive developmental impacts. In 2009, evaluations were performed on 20 funds. The methodology behind these evaluations and some outcomes from the 2009 evaluations are discussed in this section.

Purpose of CDC's evaluations

CDC invests in funds in order to provide capital available for businesses in poor countries. The rationale is to enable these businesses to realise their growth potential in a responsible manner and thereby contribute to economic growth for the benefit of the poor.

Development capital, however substantial, is only one contributing factor behind economic growth and poverty alleviation. CDC's system of development impact evaluations aims to discover the extent to which CDC's capital is deployed in more ways than the provision of capital alone.

The purpose of these evaluations, conducted either at the mid-point of the fund's life or as a final evaluation at the end of the fund (typically after about 10 years), is to explore in more detail the complete developmental and financial impact of CDC's investment.

From an internal perspective, CDC considers the ability to perform an evaluation as a personal and institutional learning experience and a valuable training tool for CDC's investment staff. The evaluation process is designed to help formulate more detailed judgements about all aspects of the performance of a fund. This includes the fund's strategy and regional focus as well as the impact of investment upon portfolio companies.

How CDC performs evaluations

CDC's evaluation framework, benchmarked against those of other DFIs, is similar but not identical to that used by the IFC for investments through financial intermediaries. The system is intended to be practical, simple and deliver the key information required by CDC for its investment management and communication purposes, as well as for CDC's Board and shareholder the UK government's Department for International Development (DFID).

The monitoring and evaluation framework used by CDC includes four key parameters to assess the overall development outcome for each fund investment, based on the performance of a fund as well as its underlying portfolio companies: CDC operates a six-scale rating against each performance parameter, ranging from excellent to poor.

- financial performance – indicating whether investments are profitable thus returning capital to CDC for further investments and demonstrating to other investors that profitable investments can indeed be made in emerging markets where they are traditionally reluctant to invest;
- economic performance – indicating the extent to which investments generate benefits for the local economy, in terms of commercially successful and growing businesses that provide employment and generate tax revenues;
- ESG performance – indicating whether fund managers and their portfolio companies adhere to responsible investment and business practices in line with CDC's Investment Code and whether portfolio companies over time improve upon their practices from the ESG perspective; and
- private sector development – indicating whether CDC's investments have broader private sector development effects including increased availability of capital for businesses in low income countries from the third party capital invested alongside CDC; more efficient capital markets; improvements to regulatory environments from contributions by fund managers or portfolio companies to new standards.

CDC also evaluates its own effectiveness on two dimensions:

- added value – indicating whether CDC has provided assistance to its fund managers in shaping their investment thesis, upgrading their skills, improving their ESG management and other improvements; and
- catalytic effects – indicating the extent to which CDC helps attract commercial investors.

CDC's monitoring and evaluation framework and indicators

Development outcome	Concept	Typical performance indicators
Financial performance	• Fund managers' ability to attract commercial capital to poor country markets > financial return to investors	• Net IRR of funds versus investment targets • IRR for each exit
Economic performance	• Contributions to economic growth > commercially viable and growing businesses that generate employment and pay taxes	• Employment • Taxes paid • EBITDA and turnover (increase over time) • SMEs and low income reach (if relevant)
ESG performance	• Responsible investment and business practices with respect to the environment, social matters and governance (ESG) > fund managers' ESG management systems and the ESG performance of portfolio companies	• ESG issues and improvements over time • Development outlays (if available) • Environmental products/services (if relevant)
Private sector development	• Broader private sector development effects: > more efficient capital markets > regulatory improvements > benefits to customers from increased availability of goods, services and infrastructure	• Third party capital • Local capacity building • Enhancements to sectors and benefits for consumers e.g., increase in telecom penetration, new infrastructure, increased access to power and financial services
CDC effectiveness	**Concept**	
Catalytic effects	• CDC's direct role in bringing in other investors > focus on commercial capital	
Added value	• CDC's direct contributions to improve the way fund managers invest CDC's capital, for example: > to shape a fund's investment thesis or terms > to improve fund managers' ESG management systems > to recruit or contract key technical expertise for responsible and successful investment management	

CDC performance continued

Results from 2009 evaluations

A summary of the final rating results from the 20 development impact evaluations completed on CDC's funds in 2009 is presented below. Ratings specific to the eight funds that invested in Asia and the ten funds that invested in sub-Saharan Africa are discussed in the relevant regional sections of the report.

In terms of development outcome, 85% of funds in total were rated 'satisfactory' or better. Seven funds were rated as 'successful' and ten as 'satisfactory'. Three were rated at 'below expectations'. For these three funds, poor financial and ESG performance were the key reasons for generating the weak development outcome score.

For the funds under evaluation, 14 of the 20 funds were rated 'satisfactory' or better in terms of financial performance. To some extent, measuring financial performance was complicated by the financial crisis which saw large reductions in unrealised portfolio value. This has resulted in more funds, particularly those evaluated at mid-point, appearing beneath CDC's expectations. Two funds were rated as 'excellent' for financial performance.

Economic performance shows an overall stronger set of results. This is perhaps not surprising as all the evaluations demonstrated how CDC's investments bring about substantial increases in employment opportunities as well as tax receivables to governments. All 20 evaluations completed in 2009 were rated as satisfactory or better in terms of their economic performance.

Of the 20 funds assessed in the 2009 evaluations, one fund was rated 'excellent' in terms of its ESG performance, seven funds were rated as 'successful' and four rated 'below expectations'. Typical reasons for a 'below expectations' rating include the fund manager performing beneath the high standards CDC expects on ESG issues and shows the need for investors to manage ESG risks as well as opportunities carefully. Nonetheless, the fact that 16 of 20 evaluations (80%) performed satisfactorily or better on ESG matters is reassuring. At the company level, of the 234 companies reporting data, 73% of evaluated companies had ESG issues at the time of investment and 83% had observed and reported ESG improvements.

In terms of private sector development, 95% of the funds evaluated were assessed as 'satisfactory' or better on private sector development contributions. Two funds received the highest rating, 'excellent' whilst a further eight were rated as 'successful'. Only one fund was rated as 'below expectations' for the reason that investments have focused too specifically on one country when this was not initially expected of the fund.

CDC also evaluates its own effectiveness on two dimensions – added value and catalytic effect. This is discussed in more detail in chapter 7.

2009 evaluations in summary

20 funds

11 fund managers

313 companies

15 mid-point evaluations
5 final evaluations

CDC's evaluation work in 2009 covered funds investing in companies of all sizes and in all sectors

10 funds investing in Africa
8 funds investing in Asia

13 evaluations conducted by CDC

7 conducted by external consultants

Summary of the ratings from the 20 evaluations completed in 2009

	Excellent	Successful	Satisfactory	Below expectations	Unsatisfactory	Poor	Satisfactory or better (%)
Development outcome	–	7	10	3	–	–	85%
Financial performance	3	5	6	4	2	–	70%
Economic performance	2	9	9	–	–	–	100%
ESG performance	1	7	8	4	–	–	80%
Private sector development	2	8	9	1	–	–	95%
CDC effectiveness	4	9	7	–	–	–	100%
Added value	3	11	6	–	–	–	100%
Catalytic*	3	8	4	1	–	–	94%

*Catalytic effect is not considered for funds where CDC has entered in the final close, hence the number of funds rated on catalytic effect is fewer than for the other performance measures.

Regional reviews

Chapter 3

Under its Investment Policy, 75% of CDC's new investments will be invested in low income countries for the five year period from 2009 to 2013, with at least half in sub-Saharan Africa. CDC thereby increases its focus on the poorest regions and people where its investments can have the largest developmental impact. By this means, it can also demonstrate to others the long-term benefits that can be gained from investing in the emerging markets. Sub-Saharan Africa contains, as it did last year, the largest share of CDC's portfolio value and also the region where the largest proportion of people live in poverty.

In this chapter, analysis is conducted into the impact of CDC's capital as well as the risks and opportunities specific to different regions. Three of CDC's fund managers also offer their perspective on the past year, particularly with respect to the challenges of emerging from the financial crisis.

Chapter 3: Regional reviews – Asia

Since its financial crisis in 1998, most of Asia has enjoyed ten years of rapid economic growth and declining poverty, driven by an expanding private sector. Whilst last year did impact upon CDC's portfolio companies, CDC still made $75m of new commitments to Asian funds. A pioneering fund in which CDC invested in 2009 is Rabobank's India Agribusiness Fund.

£607m CDC portfolio value

£121m invested in 2009

391 companies

4 new fund managers

562,000 people employed in 308 portfolio companies which reported data in 2009

US$1.5bn domestic taxes paid by the 252 companies which reported data

Total turnover of US$48bn

Total profitability of US$7bn

Review of the past year

Although Asia was not immune to the impact of the global financial crisis, most Asian economies were less affected than European and US counterparts. Many have also rebounded strongly in the second half of 2009 due to government stimulus programmes, pick up in global trade activity and continuing domestic demand. 2009 did see a slow down in private equity activity in India, with 287 private equity deals amounting to a total of $4.43bn. This is opposed to 502 deals amounting to US$11.9bn in 2008 and demonstrates the impact of the financial crisis.[11] Some private equity funds took advantage of the sharp rise in stock markets in the second half of the year to exit certain investments successfully. There were 96 exits with a total value of US$2.2bn compared to US$0.93bn in 2008.

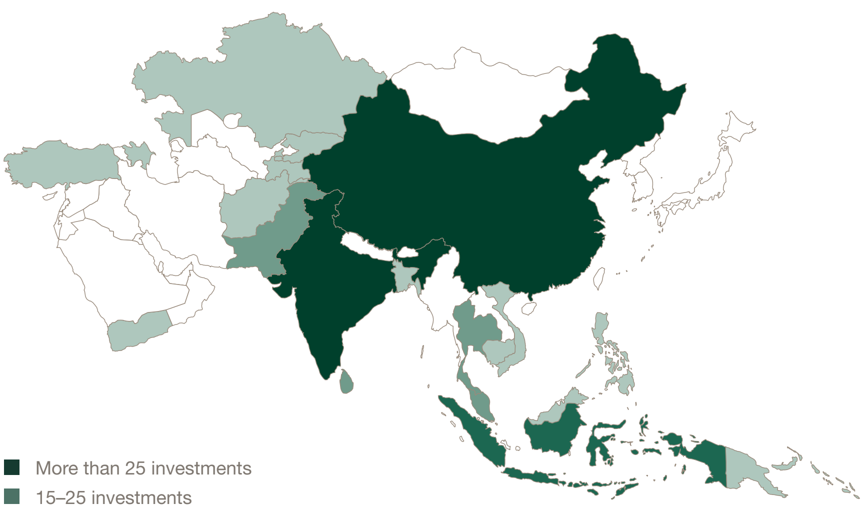
While the last year impacted upon CDC's underlying portfolio companies, CDC has continued to make investments across Asia. One pioneering initiative backed by CDC is Rabobank's India Agribusiness Fund, the first private equity fund to focus on the food and agribusiness sector in India. CDC also committed to India Value Fund Adviser's Fund IV and Ascent India's Fund III over the course of the year.

At the end of 2009, CDC had 391 portfolio companies in Asia, representing an increase of 43 on the previous year. With a total portfolio value of £607m, CDC's investments in Asia account for 43% of CDC's total portfolio value. India is the single largest investment destination for CDC's capital, with £268m invested in 167 companies. China also represents a substantial proportion of CDC's total portfolio with £197m invested in 107 companies.

As a result of CDC's new Investment Policy which focuses more specifically upon the low-income countries in Asia, India will continue to be a major investment focus for CDC, as will Afghanistan, Bangladesh, Cambodia, Laos, Nepal, Pakistan and Vietnam. Further discussion of the opportunities CDC is currently pursuing is contained later in this section.

CDC's Asian portfolio includes companies operating in all sectors of the economy. The consumer sector, with a total of 82 investments in 12 countries and a total investment value of £148m represents the largest share of CDC's investment portfolio in Asia. Industrials is the second largest sector in CDC's portfolio with £98m invested in 82 companies.

CDC's fund managers have investments in 27 countries in Asia



- More than 25 investments
- 15–25 investments
- 6–14 investments
- 1–5 investments

AFGHANISTAN
AZERBAIJAN
BANGLADESH
BELARUS
CAMBODIA
CHINA
FIJI
INDIA
INDONESIA
KAZAKHSTAN
KYRGYZSTAN
MALAYSIA
PAKISTAN
PAPUA NEW GUINEA
PHILIPPINES
RUSSIA
SERBIA & MONTENEGRO
SOLOMON ISLANDS
SRI LANKA
TAJIKISTAN
THAILAND
TONGA
TURKEY
UKRAINE
VANUATU
VIETNAM
YEMEN

Development highlights

CDC has been an active investor in Asia over the past 60 years and has played a pioneering role in supporting promising businesses operating in poor or challenging countries in the region.

As a consequence of its investments in commercially strong companies, CDC has made a significant contribution to economic growth and poverty alleviation across the continent. About 562,000 people are employed in the 308 portfolio companies in Asia which reported employment numbers to CDC in 2009. This represents reporting from 79% of CDC's total portfolio companies in the region. China employs 192,000 people in the 93 companies that reported data.

In addition, CDC's portfolio companies are major contributors to government revenues in Asia. About $1.5bn in taxes was paid to domestic governments throughout Asia. 252 portfolio companies reported tax data to CDC in 2009, representing about 64% of CDC's total portfolio companies in the region. China represents the largest share of taxes paid in CDC's Asian portfolio with nearly US$600m paid across 73 companies reporting this data.

In India, CDC has mapped which states 130 of its Indian portfolio companies are located in against the domestic product per capita of the Indian states. Although states containing cities such as Mumbai, Bangalore and Chennai represent a significant proportion of CDC's portfolio, CDC has a presence in more than 22 Indian states, nine of which are below the national average for domestic product per capita.

Portfolio specific challenges and risks

Many of CDC's fund managers have coped relatively well during the global downturn. Over the past year, fund managers across Asia have demonstrated investment discipline and have slowed down their investment pace. Concentration has also focused on building up value in their existing portfolio companies. This process has been helped by the quick recovery in the Asian economies as well as the strong growth element, low levels of capital leverage levels and less sophisticated financial structuring at the company level.

Many of the challenges faced by both CDC and its fund managers in Asia are typical of emerging market private equity investing in general. Fund managers likely to succeed best are those with the most informative due diligence processes and those who are most active in monitoring their portfolio. Corporate governance and promoter integrity are further issues that are often central to a fund manager's prospects.

China

China has experienced exceptionally rapid economic expansion over the last decade. One consequence of this is that corporate governance standards are only now starting to catch up with those generally commonplace for businesses in Europe and the United States. This often remains a major issue faced by investors when doing business in China.

Over the course of 2008 and 2009, a few of CDC's fund managers faced issues regarding poor governance at both fund level and in their underlying portfolio companies. One example involved a fund manager in China failing to disclose a personal conflict of interest arising out of his shareholding in a publicly traded company. This resulted in the Chief Executive Officer (CEO) of the fund stepping down as fund manager at the insistence of investors.

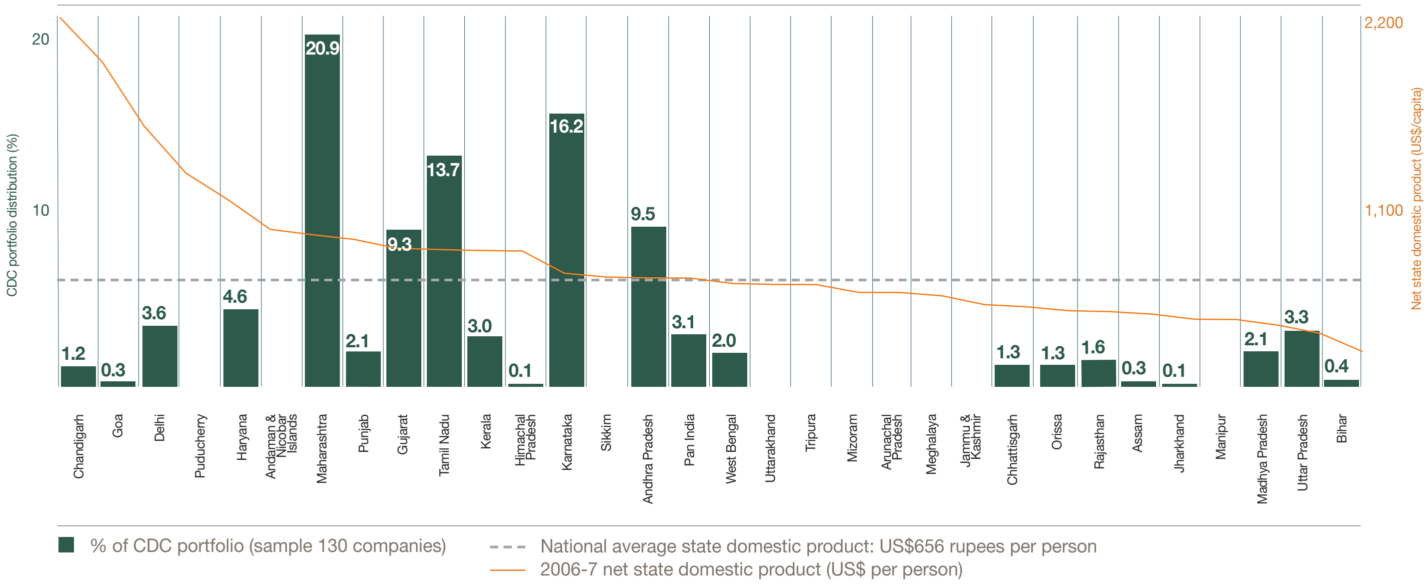
In another example, promoter mismanagement and questionable related party transactions led to a significant decline in one company's performance. Intervention by the domestic government, following ongoing concerns about the integrity of reported performance, resulted in a dilution of the fund manager's stake in the company.

Both cases highlight the importance of adequate due diligence by fund managers on the leading shareholders at portfolio companies as well as active portfolio monitoring to prevent governance issues from occurring. When governance issues do occur, appropriate remedial actions are most effective when adopted as quickly as possible. Fund managers need to exercise rigour in ensuring that strong governance procedures, in forms such as independent audit and remuneration committees, are implemented.

Pakistan

The business environment in Pakistan remains challenging, with private consumption and investment expected to remain subdued on the back of the deteriorating security situation and chronic energy shortages.

CDC's Indian portfolio companies
– spanning 20 states with significant presence in mid and lower range states in terms of state domestic product per person[12]



Asia continued

For example, more than two million people were displaced by fighting between the army and Taliban militants in 2009.[13]

In 2007, CDC invested in JS Private Equity, a pioneer fund in Pakistan, which has to date invested in companies operating in the leasing, chemicals and media sectors. During this period of heightened security unrest, the manager continues to work actively with portfolio companies to maximise value extraction and minimise security-related disruption.

Broader regional challenges

Battle against poverty

Despite recording remarkable growth over the past decade, the battle against poverty remains an ongoing task. 33% of the people in South Asia still live below the threshold for poverty, surviving on less than US$1.25 per day. The poor in India alone make up over a third of the total number of poor people in the world.

While the situation in China, along with the rest of East Asia, paints a more reassuring picture current poverty rates still exist at levels of around 10% of the population in East Asia and the Pacific. There are still an estimated 200 million poor people in China, with the majority located in rural Western China, away from the developed cities of Beijing, Shanghai and Hong Kong.

Challenging labour conditions[14]

According to the International Labour Organization (ILO), 77% of all employment in South Asia is considered to be vulnerable. For such workers, this entails limited access to social security, income protection and coverage under labour legislation which we often take for granted in developed economies. 62% of workers in East Asia are similarly considered vulnerable. By developing the private sector, CDC's fund managers help develop employment opportunities in the region.

Infrastructure deficit

Infrastructure development is integral in a country's economic growth. Developing infrastructure increases productivity, allowing companies to become more competitive which boosts regional economies. Core infrastructure assets such as roads, railways, airports, ports and power help drive the investment decisions of domestic companies and can contribute to an area's attractiveness to commercial foreign investment. Much of South Asia suffers from inadequate urban and rural infrastructure and is characterised by a weak transport and communications network as well as insufficient energy and water supplies.

According to International Finance Corporation (IFC) estimates, some 30% of India's households still lack access to electricity and 20% have no sanitation facilities.[15] India's infrastructure deficit has been summarised by India's then Finance Minister, Palaniappan Chidambaram, who commented in 2006 that infrastructure was India's most glaring deficit and announced that US$500bn in investment would be needed, a third of which needs to come from the private sector.[16] India's infrastructure deficit was estimated to be impeding economic growth by an estimated 2% per annum.

A fund manager's perspective

Baring, India

The Indian economy showed remarkable resilience throughout the global slowdown. However, the large stimulus packages in the developed economies have created a wall of liquidity, resulting in large capital inflows into India. This has reduced the cost of capital and caused short-term currency appreciation. Currency strengthening is likely to continue on the back of higher growth and the unveiling of key reforms that will attract higher capital flows. Over the long term though, there might be a risk that India's large fiscal deficit could affect growth prospects by causing inflation and therefore resulting in rupee depreciation and increasing the cost of capital.

As a result of large capital inflows into India post March 2009, the economic downturn did not last long enough to see a full private equity investment cycle in order to enable deal closures. As a consequence, companies only in pursuit of capital preferred tapping the public markets rather than private equity since it was cheaper, faster, valuations fetched were higher and there were no private equity terms attached. Furthermore, due to higher cost of capital, we could not offer aggressive valuations thereby resulting in losing out on deal closure.

Nonetheless, we believe industry sectors leveraged to the cycle of asset creation, outsourcing and domestic consumption will bulwark long term growth. Particular sectors will offer high return potential over the longer term. These include infrastructure where indicators suggest large capacity creation is possible for various activities, in particular, power and roads as well as domestic consumption and consumer goods, which will benefit from India's strong demographic profile, higher disposable incomes, urbanisation and a regional retail revolution.

Warehousing project in China

Construction in India

Production of pharmaceuticals

Regional trends

Although the global recession did take its toll on emerging market economies, the second half of 2009 saw many Asian countries rebounding strongly, largely as a result of swift government responses to the crisis in the form of stimulus packages, a pick up in global trade activity and strong domestic demand.

China

Despite the economic downturn, China's economy grew over 8.7% in 2009 and the Chinese government is targeting a similar growth rate in 2010.[17] At the close of 2009, the impact of the Chinese government's stimulus package was evident, especially when measured by the stock markets: Hong Kong's Hang Seng Index gained 52%, whilst the Shanghai Composite Index rose 74%.

Chinese private equity funds also raised US$8.7bn of fresh capital in 2009, representing 38.7% of such capital raised in Asia. For the first time, China-focused funds surpassed those with a pan-Asia focus.

South Asia

The Indian economy continued to expand in 2009, helped by the government stimulus package and a revival in domestic demand. Following July 2009 government elections, the capital markets strengthened on the back of renewed government commitment and spending on the agriculture and infrastructure sectors. The Indian equity market index ended the year with an 81% increase.[18]

There was limited private equity activity in Pakistan in 2009 as the country continues to suffer from internal civil unrest. Bangladesh, where CDC is looking to increase its portfolio continues to grow steadily with GDP growth of about 6%. Listed markets saw a relatively large increase in liquidity in 2009.

South East Asia

Many South East Asian economies recovered strongly in the second half of 2009 and are expected to register positive growth for 2010 following the anticipated recovery of key export markets.

Opportunities

The Mekong region

CDC is actively looking at fund managers focusing on the Mekong region, comprising Vietnam, Cambodia and Laos. We believe that CDC can play a major part in developing the private sector in the region by being active in the formative stages of the regional private equity industry. This is a pioneer role for CDC, similar to that played in the early development of the private equity industry in Bangladesh and Pakistan.

Healthcare in India

Despite strong improvements in the Indian healthcare sector, there are still very large gaps in supply and demand. On the supply side, healthcare delivery and pharmaceutical companies are still not providing enough coverage both in terms of access and affordability. With low capital available, the healthcare segments need more capital to expand.

CDC's fund managers are playing an active role in addressing this deficit. Kotak Private Equity has invested in Bharat Serums & Vaccines Limited, a bio-pharmaceutical company catering to India's domestic market as well as global markets. Aureos have backed Apollo Hospital Dhaka, the first privately owned international class tertiary medical facility in Bangladesh, via their South Asia fund.

Education in India

Better education leads to higher earning potential for future generations, contributing to economic development.[19] In low and lower-middle income countries in Asia, governments' education spending ranges from 2-4% of GDP, behind that of developed countries whose average spend is around 6%.[20]

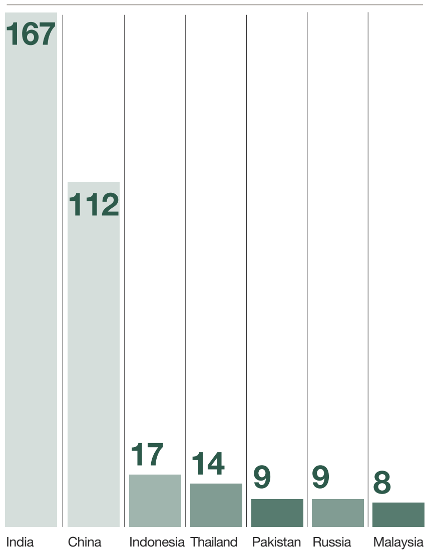
Across CDC's Asian portfolio, several fund managers have made investments in education sector companies and many more are actively looking for opportunities. Actis has invested in Ambow, a personal education and training company in China. Navis has an investment in The Institute for Technology & Management, a tertiary and executive education service provider in India.

Indian venture capital and distressed assets

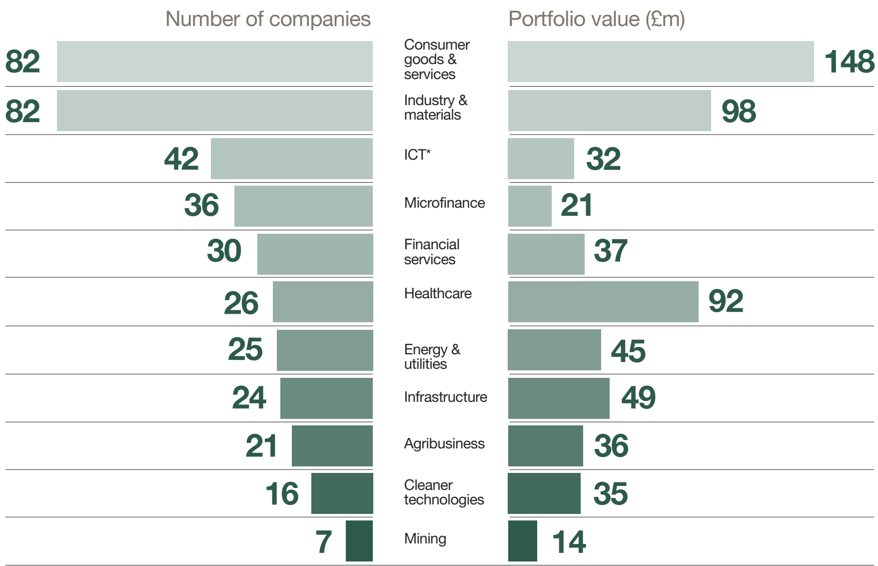
Whilst private equity activity in India has surged in the past few years, there continues to be a gap between the capital requirements for early stage companies and traditional sources of funding. By supporting successful venture capital fund managers who have a proven track record of helping start-ups transition into larger enterprises, CDC can promote innovation and entrepreneurship in India.

The distressed asset class in India represents a further opportunity for CDC to contribute to the development of the private sector. India's credit growth over the past decade has led to increased non-performing assets (NPAs) on banks' balance sheets – amounting to US$14bn according to the Reserve Bank of India at the end of 2009. Distressed debt funds allow banks to clean up their balance sheets by offloading non performing loans and thereby enable funding of future growth through new lending to entrepreneurs and businesses.

Largest investment destinations by number of companies



CDC's presence in Asia



* Information and communication technologies

Asia continued

Evaluations – high level results and analysis

In 2009, CDC conducted evaluations on eight of its fund investments in Asia. Five of these evaluations were conducted at mid-point, halfway during the investment duration of the funds and the remaining three were final evaluations conducted at the end of the funds' duration.

The evaluation work included reviews of 103 companies in which these funds had invested and also assessed the practices of the four fund managers managing these eight funds across Asia. Two of these fund managers were rated as 'low' in terms of their ESG management, something that gives CDC cause for concern.

The results of the evaluations showed that two of the eight funds were rated as 'successful' in terms of development outcome, with five rated as 'satisfactory' and one rated as 'below expectations'. The fund rated as 'below expectations' was so assessed as a consequence of poor financial and Environment, Social and Governance (ESG) performance.

In terms of economic performance, one fund was rated as 'excellent' with the remainder rated 'successful' or 'satisfactory'. The fund rated 'excellent' was a South Asian regional fund nearing the end of its term and therefore with few remaining current investments. From evidence gathered by CDC, 13 of the 16 companies grew in terms of turnover and 14 showed an increase in profitability.

Three of the funds achieved a 'successful' ESG performance rating and four a 'satisfactory' rating. This suggests that CDC's fund managers in Asia are competently handling ESG issues that arose in the underlying portfolio companies. Examples include the professionalisation of corporate governance in one fund in South East Asia. Governance is an important issue for many Asian countries – of those companies that provided ESG governance risk ratings, 15% of companies in Asia were rated as high risk.

24% of Asian portfolio companies covered in the evaluations had environmental issues and 30% social issues at the time of the funds' investment. In most of these cases, inadequate health and safety standards, poor environmental management systems and below-industry standard wages were the most common issues uncovered by CDC. These issues have since been acted upon.

All the Asian funds evaluated were rated at least as 'satisfactory' when scored for private sector development impact. One fund in particular was pioneering in its approach to buy-outs across South East Asia and its assistance in helping its portfolio companies expand further into Asia (into China in one case and Vietnam in another).

The evaluations reviewed CDC's effectiveness in adding value as an investor and the catalytic impact of CDC's commitment to the funds. One fund was rated as 'excellent' with a further four classified as 'successful'. A total of US$950m in commercial capital was invested alongside US$380m of CDC's capital to the funds under evaluation.

Key statistics from 2009 Asian evaluations

Financial performance

One of the best performing funds showed a net IRR of 16% in its final evaluation. The least well performing fund showed a net IRR of 6.8% in its final evaluation.

Economic performance

77% of portfolio companies showed employment growth with 58,500 new jobs created.

Only 5% of portfolio companies decreased their number of workers, with 559 jobs lost.

84% of the portfolio companies experienced growth in turnover. Only 11% saw a decrease.

69% of portfolio companies demonstrated growth in profitability as measured by EBITDA. 25% saw a decrease.

ESG performance

One fund manager was rated highly in their ESG management systems. Two were rated as low and one as medium.

For the 81 portfolio companies that were rated in terms of their ESG management systems:
> 41% were rated high
> 32% were rated satisfactory
> 27% were rated poor

Private sector development

US$948m in third party capital was raised by the 8 funds evaluated. CDC contributed a total of US$391m to these funds, 29% of the total capital.

68% of the third party capital invested in these 8 funds was from commercial investors as opposed to DFI's.

Summary of CDC's evaluation ratings of 8 Asian funds in 2009

	Excellent	Successful	Satisfactory	Below expectations	Unsatisfactory	Poor	Satisfactory or better (%)
Development outcome	–	2	5	1	–	–	88%
Financial performance	2	1	4	1	–	–	88%
Economic performance	1	2	5	–	–	–	100%
ESG performance	–	3	4	1	–	–	88%
Private sector development	–	2	6	–	–	–	100%
CDC effectiveness	1	4	3	–	–	–	100%
Added value	1	4	3	–	–	–	100%
Catalytic*	1	4	–	1	–	–	83%

*Catalytic effect is not considered for funds where CDC has entered in the final close, hence the number of funds rated on catalytic effect is fewer than for the other performance measures.

Regional reviews – Sub-Saharan Africa

There is a larger proportion of the world's poor in sub-Saharan Africa than any other region with 50% of the population living on less than US$1.25 a day. Although the region has experienced average growth rates of 5% over the past decade, the recession has impacted more severely this year than last. The amount of uncalled capital among private equity investors has helped catalyse growth in promising companies across the region.

£640m CDC portfolio value

£194m invested in 2009

318 companies

2 new fund managers

125,000 people employed in 255 portfolio companies which reported data in 2009

US$820m domestic taxes paid by the 162 companies which reported data

Total turnover of US$23bn

Total profitability of US$6bn

Review of the past year

Sub-Saharan Africa was late to feel the effects of the global financial crisis and, amongst developing economies, late to emerge. This is due in particular to a decline in commodity prices, especially oil and mineral resources, which have severely affected many African economies and marked the end of the biggest commodity boom in decades.[21]

Across sub-Saharan Africa, the impact of the crisis has varied considerably between different countries. South Africa for instance has been severely affected, through a 1.8% contraction of its GDP and a cut-back in liquidity. Uganda by contrast appears to have fared better. Despite receding export demands and slackening capital inflows, the country is still expected to see growth of upwards of 5% between 2008 and 2011. The news is not all positive; an ILO survey into the country has concluded that despite only a moderate macroeconomic shock, low-wage workers in Uganda will be those most severely affected by the downturn.[22]

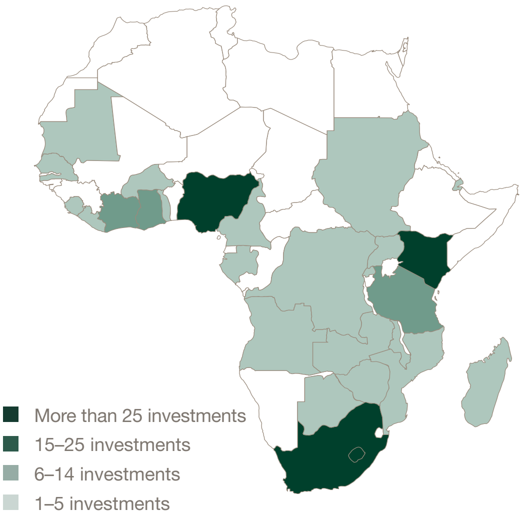
Across Africa in 2009, CDC's portfolio companies have operated within an environment of greatly reduced liquidity. Nonetheless, private equity uncalled capital has helped companies access essential finance, both for capital expenditure and working capital.

In 2009, CDC committed to two new fund managers in Africa. These were managing the Sierra Investment Fund, the first private equity venture of its kind in Sierra Leone and African Development Partners Fund 1.

In 2009, CDC maintained an active programme of new commitments with US$155m committed to a total of four new funds. CDC's fund managers made a total of £194m of new investments. CDC currently has 318 portfolio companies across sub-Saharan Africa, an increase of 57 over the past year. These companies are spread across 28 countries.

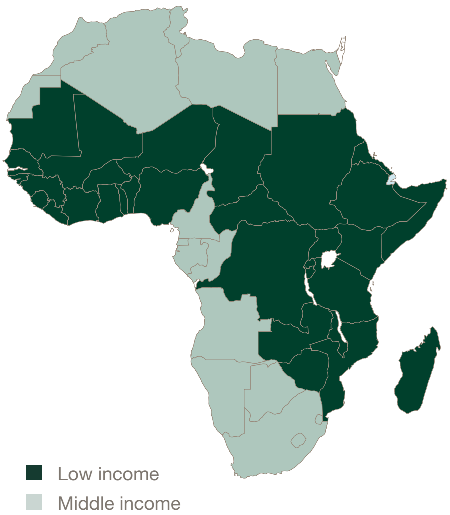
Despite this, 2009 has not been an easy year in this region. An example of the challenges can be seen in the crisis in the Nigerian banking sector that received broad coverage in 2009. The crisis resulted from easy liquidity from 2006 to 2007, inadequate risk management and, in some cases, poor governance. The rapid decline in the oil price at the start of 2009 and the extended slump in the Nigerian Stock Exchange exposed poor credit decisions, although it took decisive action by the Central Bank of Nigeria to bring transparency to the sector.

CDC has investments in 28 countries in sub-Saharan Africa



ANGOLA
BOTSWANA
BURKINA FASO
CAMEROON
CONGO (DEMOCRATIC REPUBLIC)
CÔTE D'IVOIRE
DJIBOUTI
GABON
GAMBIA
GHANA
KENYA
LIBERIA
MADAGASCAR
MALAWI
MAURITANIA
MAURITIUS
MOZAMBIQUE
NIGERIA
RWANDA
SENEGAL
SIERRA LEONE
SOUTH AFRICA
SUDAN
TANZANIA
TOGO
UGANDA
ZAMBIA
ZIMBABWE

CDC's investment universe in Africa



Sub-Saharan Africa continued

Portfolio overview – growth and development highlights

CDC's intermediated operating model enables it to reach a broad range of investee companies across sub-Saharan Africa. At the end of 2009, CDC had 39 funds managed by 20 fund managers in the region. The number of African companies in CDC's sub-Saharan portfolio increased from 261 to 318 over the course of 2009. This includes over 120 SMEs, particularly in the East Africa region managed by GroFin and Business Partners International.

213 or 67% of CDC's companies in sub-Saharan Africa are based in low income countries. This represents a substantial proportion of CDC's total portfolio in which 54% are located in low income countries.

CDC is invested in 28 countries across sub-Saharan Africa with Kenya, Nigeria and South Africa having the largest number of portfolio companies. CDC is also present in smaller regional economies with portfolio companies in Cameroon, Malawi, Mozambique and Togo. Many of the companies in which CDC is invested also have a strong interregional presence and offer services in countries additional to their main operational site.

CDC's African fund managers have executives based in low income countries across Africa, spread across 14 countries. These executives contribute to the spread of entrepreneurship in sub-Saharan Africa through their focus on particular investment strategies and businesses. By allocating capital to the strongest management teams, CDC's fund managers are committed to pushing for continuous improvement and professionalism in the businesses in which they operate.

CDC spans many industry sectors in sub-Saharan Africa, with a focus on financial services, industry and materials and the information and communications technologies sectors. In terms of portfolio value, CDC's two largest sectors are again financial services and industrials with a portfolio value of £196m and £73m respectively. CDC also has a significant presence in energy and utilities, mining, consumer goods and the infrastructure sectors, providing a range of services across the region.

Site visits

In 2009, CDC's Africa team visited portfolio companies across Africa. Site visits are a means by which CDC can monitor its investments and understand more about particular challenges faced in specific countries.

In 2009, CDC's Africa team visited investments in countries including the Democratic Republic of Congo (DRC), Kenya, Nigeria, Rwanda, Senegal and Uganda. Visits of particular interest included trips to remote mining operations in the DRC and Senegal, financial services in Rwanda and small entrepreneurial developments in both Kenya and Uganda.

Portfolio specific challenges

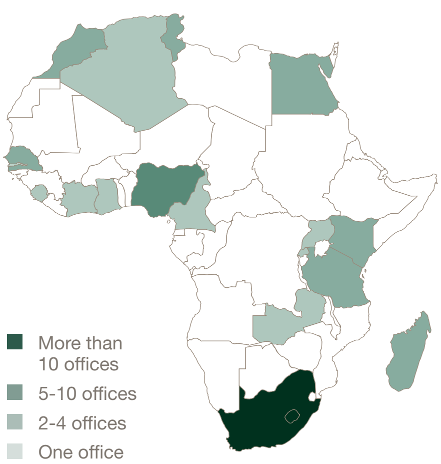
2009 was a challenging year and fund managers needed to re-set their priorities to ensure that they could devote the necessary time to support their investee companies. Some fund managers struggled more than others to mobilise the required levels of skill and experience to influence adequately those portfolio companies with particular challenges.

Some of the challenges faced by the portfolio in 2009 were unprecedented. The global financial crisis highlighted the challenge in managing financial institutions. CDC's African portfolio has not been immune. In Nigeria, an audit by Nigeria's central bank revealed risk management and corporate governance shortcomings in two Nigerian banks in CDC's portfolio. In order to stabilise the sector, the Nigerian central bank moved to support nine of the 25 banks operating in the country.

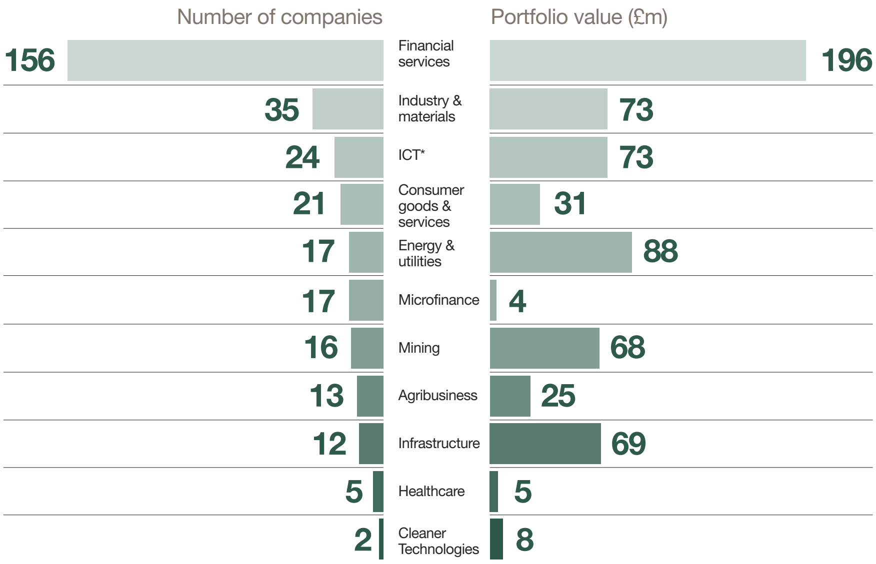
Positive stories also emerged from the financial sector in sub-Saharan Africa in 2009. For example CDC invested in DCFU in Uganda and Banque Commerciale du Rwanda (BCR), both of which proved resilient in 2009 and remain strongly placed for the future. BCR has targeted small and medium sized enterprises (SMEs) and a retail client base and has developed a strong relationship with the non-governmental organisation (NGO) sector. Three of the Nigerian banks in which CDC is invested are also well-positioned for the future.

In South Africa, the contraction in GDP and the general shortage of liquidity in Africa made both the investment and exit environment extremely challenging for much of 2009. Declining earnings coupled with high leverage resulted in a large write-down of investments in a South African logistics company, although CDC's portfolio in South Africa otherwise remained satisfactory.

Local offices in Africa



CDC's presence in sub-Saharan Africa



* Information and communication technologies

Regional trends

Southern Africa

Economies across Southern Africa were badly affected at the start of 2009 by the collapse in commodity prices. When these started to recover in the second half of the year growth re-emerged. However, consumer demand remains weak, particularly in the South African retail sector.

The main political challenge in Southern Africa remains tackling inequalities by improving the delivery of public services, whilst retaining the confidence of financial markets.

West Africa

Politics has added this year to the delayed effects of the global crisis, with Nigeria risking a constitutional crisis given the absence of its president. This risk has been magnified by the devaluation of the Naira over the course of last year. Guinea, Niger and Guinea-Bissau have experienced recent coups.

2010 is a year of elections in Côte d'Ivoire, and Togo. The results of these will be important in shaping foreign investment flows into the area. Security in the Niger Delta will continue to be a core issue for Nigeria. This stems from poverty and politics in the region as more stakeholders push for a greater share of oil revenues.

Terms of trade have not been badly affected in West Africa in 2009. This is thanks largely to a good harvest and better oil price budgeting in both Nigeria and Côte d'Ivoire. Most countries in the region remain food and oil importers, and have benefited from stabilised prices compared to 2008.

East Africa

As a region, East Africa has been hit quite severely by the global financial crisis. In the aftermath, the Ugandan, Tanzanian and Kenyan Shilling were all significantly devalued against the US dollar. CDC has a significant presence in East Africa with 70 portfolio companies and 7.7% of its overall portfolio value held in Kenya, Tanzania and Uganda.

The year was a challenging one from other perspectives as well. Political tension increased in Kenya in the first half of the year and the government of national unity is perceived as less effective by investors. Rioting also occurred in Uganda. A severe drought has impacted on business operating environments, magnified by the effects of poor land management. Land degradation is a particular problem in the highlands of Kenya, Tanzania and Uganda.

A fund manager's perspective

Tuninvest/Africinvest

There were many challenging aspects to 2009. A particular challenge was to meet the project financing needs of portfolio companies, access to which has become more difficult and/or expensive in a number of African countries over the past year. An additional problem has been that access to bank financing (even very short term) became scarcer in many countries. Large distribution companies in particular have been forced to reduce the size of their orders. In turn, this had a negative impact on most industrial companies which have witnessed a contraction of demand.

The capacity of private equity teams to provide their investee companies with the needed strategic guidance and support is a key driver of success during these difficult times. Our view is that teams operating with a patient 'hands-on' approach, with an emphasis on true value creation, will prevail over those seeking quick returns based on financial scheming. With banks still suffering from liquidity squeezes, we view this period as an opportunity to tap new markets and sectors emerging from the crisis and make investments at good entry prices.

On the environmental front, the challenge is to convince portfolio companies of the continued importance of addressing environmental issues in spite of scarcer resources. The danger is that such issues might be treated as secondary in light of the problems posed by the financial crisis.

Packing picked flowers

Accra Mall, Ghana

Logistics operation

Sub-Saharan Africa continued

Opportunities and sectors in sub-Saharan Africa

CDC continues to seek out investment opportunities across sub-Saharan Africa and in 2010 will look to focus on the sectors discussed below.

Agribusiness
Developing the agricultural sector is a crucial ingredient in fostering economic growth in developing countries. Moreover, it is a Millennium Development Goal to halve the proportion of people suffering from hunger between 1990 and 2015. Since over 60% of the population of sub-Saharan Africa lives in rural areas, promoting sustainable agribusiness is vital to the region's economic development.

Much of sub-Saharan Africa has ideal dynamics for agribusiness with good temperature and climate, decent soils and sufficient labour and water to make intensive production possible. As an asset class, agribusiness is substantially underdeveloped in Africa. Farm efficiency is just 25% of the global average. Moreover, recent regulatory improvements have also made investment in African agribusiness more attractive to investors.

Infrastructure
Africa has a huge infrastructure deficit compared with countries outside the continent. One in four Africans have no access to electricity and it takes two to three times longer to travel the same distance in Africa than in Asia. Constructing roads, bridges, telecommunication and power infrastructure creates new opportunities for both individuals and businesses. Obiageli Katryn Ezekwesili, the vice-president of the World Bank in Africa draws the analogy to China: "China's success story in reducing poverty through rapid and sustained growth is remarkable. Large investments in infrastructure was a key factor."[23]

Fund managers specialising in infrastructure can bring the expertise needed to help to tackle Africa's infrastructure deficit. A market-led approach, accompanied by strong regulation, will attract private capital to sub-Saharan Africa.

SMEs
Promoting the financing of SMEs remains an important part of CDC's business. Specialist private equity teams have become more skilled in engaging with the SME sector across Africa and more proficient in promoting best operational practices.

CDC is currently invested in Business Partners International's Kenya fund which provides finance to Kenyan companies underserved by traditional financial institutions. The fund is a US$14.1m risk capital fund that seeks to invest between US$50,000 and US$500,000 in promising SME ventures.

Real Estate
CDC also finances real estate, typically through specialist fund managers. There is a shortage of long-term finance of first-class facilities across Africa, facilities which can attract further local and foreign capital inflows. Moreover, by addressing the shortage of entry level housing and drawing attention to planning and infrastructure provision, real estate development can become a magnet for accelerating the development of a local area.

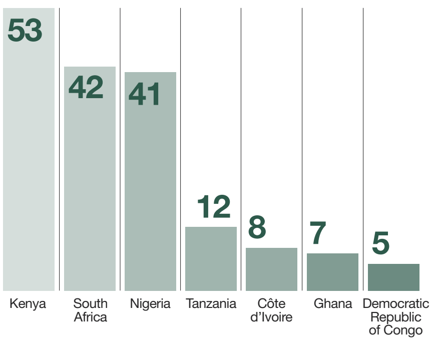
Key risks and management issues

CDC's objective is to reach underserved markets across sub-Saharan Africa by working with fund managers who can successfully manage the risks of investing in these challenging markets. Chapter 7 describes in more detail the challenges of investing in low income countries and markets. One of CDC's objectives is to attract greater levels of private capital to Africa, a goal strongly promoted by developing a track record of positive commercial returns.

Standards of corporate governance can present a particular difficulty for African fund managers and are a common reason for them to screen out unsatisfactory investment opportunities. One measure of corporate governance is Transparency International's corruption perception survey.[24] This is a 'survey of surveys' based on 13 expert analyses of corporate governance and business integrity issues worldwide.

For sub-Saharan Africa, the results are particularly illuminating and exemplifies the difficulties investors face. Botswana finishes in 37th place, an encouraging result but certainly not the norm. South Africa, Africa's largest economy, is placed in 55th place in the 2009 survey with Ghana located in 69th place. Many small economies fair far worse with Somalia (180th), Sudan (176th) and Chad (175th) the lowest ranked African nations. In general, larger nations fair better although Nigeria, the regions second largest economy, is in 130th place. Governance is still a major issue across most countries within sub-Saharan Africa.

Largest investment destinations by number of companies



Rankings of CDC's largest investment destinations in sub-Saharan Africa in Transparency International's 2009 survey (rank out of 180)

Rank	Country
162	Democratic Republic of Congo
154	Côte d'Ivoire
146	Kenya
130	Nigeria
126	Tanzania
69	Ghana
55	South Africa

Evaluations – high level results and analysis

In 2009, CDC conducted evaluations into ten funds investing predominantly in sub-Saharan Africa. Two of these evaluations were final with the remainder being conducted roughly halfway through the funds' investment periods. The funds contained a total of 145 companies. These were managed from a variety of local offices with investment staff located in Cameroon, Côte d'Ivoire, Kenya, Madagascar, Nigeria and South Africa.

In terms of development outcome, five of the funds were rated as 'successful' overall with four rated as 'satisfactory'. One fund was rated as 'excellent' on financial performance whilst four funds were disappointing, three 'below expectations' and one 'unsatisfactory'. The fund rated 'unsatisfactory' had suffered a complete write-down of an investment in a logistics company which comprised 32% of the fund's invested capital.

On economic performance rating, seven funds were rated as 'successful' and the remainder as 'satisfactory'. 72% of companies in which CDC capital was invested had seen an employment increase over the investment period. Fourteen companies had seen job losses. 56% of companies with comparable data had seen an increase in profitability over the investment period. A total of US$1.2bn in taxes had been paid over the investment holding period by 61 companies that reported this data.

ESG performance across the funds was varied. One fund was rated as 'excellent' whilst two funds were rated as 'below expectations'. CDC's fund managers were in general successful at bringing about improvements in their portfolio companies. 90% saw improvements post investment although the difficulties of investing in sub-Saharan Africa are also made apparent by the 81% of companies that had ESG issues at the time of investment. The most common issues were environmental with 73 companies experiencing some difficulties. Typical issues included dealing with wastewater, pollution and recycling.

Two funds were marked as 'below expectations' on ESG performance. In both cases it was noted that the fund manager had complied with all the requisite regulations and guidelines, but it was felt that the overall commitment to ESG was below the high standards that CDC expects. CDC is working closely with the managers of these funds to help improve their processes and to ensure that by the time final evaluations are made the ESG performance will have markedly improved.

Private sector development performance was far more positive. Two funds were rated 'excellent' and only one fund was rated less than 'satisfactory'. One of the funds rated 'excellent', was a fund instrumental in professionalising the private equity market in Africa and managed by African nationals. Moreover, portfolio companies have been able to raise further external financing on the strength of the fund manager's own investment.

In total US$1.1bn was raised in third party capital by the ten sub-Saharan funds evaluated by CDC and six of the funds had or were in the process of raising successors.

Key statistics from 2009 sub-Saharan evaluations

Financial performance

The best performing fund showed a net IRR of 29% in its final evaluation. The least well performing fund showed a net Internal Rule of Return (IRR) of 5.7% in its final evaluation.

Economic performance

72% of portfolio companies showed employment growth with 16,500 new jobs created.

Only 10% of portfolio companies decreased their number of workers, with 2,900 jobs lost.

75% of the portfolio companies experienced growth in turnover. Only 10% saw a decrease.

56% of portfolio companies demonstrated growth in profitability as measured by EBITDA. 33% saw a decrease.

ESG performance

Three fund managers were rated highly in their ESG management systems. One was rated as low and two as medium.

For the 77 portfolio companies that were rated for their ESG management systems:
- **60% were rated high**
- **32% were rated satisfactory**
- **8% were rated poor**

Private sector development

US$1.1bn in third party capital was raised by the 10 funds evaluated. CDC contributed a total of US$540m to these funds, 32% of the total capital.

47% of the third party capital invested in these 10 funds was from commercial investors as opposed to Development Finance Institutions (DFIs).

Summary of CDC's evaluation ratings of 10 African funds in 2009

	Excellent	Successful	Satisfactory	Below expectations	Unsatisfactory	Poor	Satisfactory or better (%)
Development outcome	–	5	4	1	–	–	90%
Financial performance	1	4	1	3	1	–	60%
Economic performance	–	7	3	–	–	–	100%
ESG performance	1	4	3	2	–	–	80%
Private sector development	2	5	2	1	–	–	90%
CDC effectiveness	3	4	3	–	–	–	100%
Added value	2	7	1	–	–	–	100%
Catalytic*	2	3	3	–	–	–	100%

*Catalytic effect is not considered for funds where CDC has entered in the final close, hence the number of funds rated on catalytic effect is fewer than for the other performance measures.

Regional reviews – Other regions

CDC's target is to make 75% of new investments in low income countries and to invest a minimum of 50% of capital in sub-Saharan Africa. CDC still has previous commitments though to two funds specifically concentrated on North Africa and nine focused on Latin America. Although CDC is not making further commitments in either region, it closely monitors its existing portfolio in both regions.

North Africa

£91m CDC portfolio value

£26m invested in 2009

2 funds under management

28 companies

23,000 people employed in 25 portfolio companies which reported data in 2009

US$209m domestic taxes paid by the 22 companies which reported data

4 countries with investments

Latin America

£73m CDC portfolio value

£18m invested in 2009

9 funds under management

57 companies

23,000 people employed in 29 portfolio companies which reported data in 2009

US$301m domestic taxes paid by the 27 companies which reported data

12 countries with investments

Portfolio overview

Both Latin America and North Africa are relatively more prosperous than sub-Saharan Africa and South Asia. North Africa is exclusively 'middle income' on the World Bank's poverty definition as are all countries in Latin America except Haiti and Cuba.

Although both regions have been affected by the global economic crisis, equity investment has continued. In North Africa, Actis, Tuninvest and SGAM are CDC's primary fund managers. In 2009, Actis invested US$244m in CIB, Egypt's leading private sector bank in order to help the bank expand into supplying the retail sector. In Costa Rica, Aureos recently invested US$6.5m in ITS, a remote infrastructure management company. The investment will allow the company to invest further in new technology.

CDC's largest investment destination in Latin America is El Salvador with four companies and a total portfolio value of £24m. CDC is invested in 12 companies in Mexico and nine in Brazil.

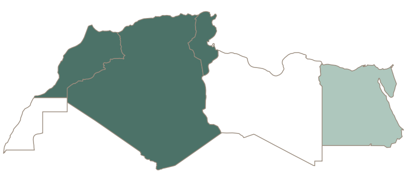
CDC is evenly invested across four countries in North Africa with 11 investments in Tunisia, seven in Morocco, six in Algeria and four in Egypt. In terms of portfolio value, the largest concentration is in Egypt with a total value of £41m.

Companies in which CDC's capital is invested in both regions employ over 20,000 people. These people are employed across a wide range of industry sectors. In North Africa, CDC is invested in five healthcare providers and a further four companies working in the ICT sector. In Latin America, financial services and consumer goods are the two sectors with the largest number of CDC's portfolio companies with 17 and 12 companies respectively.

US$209m in taxes were paid by the 22 companies that reported data in North Africa. The majority of this amount is paid by a large telecommunications provider in Algeria. US$301m is paid in taxes in Latin America. These taxes contribute significantly to government revenues, enabling investment in education, healthcare and other basic services.

From the analysis into ESG risk conducted by CDC's fund managers in 2009, six investments in Latin America and one in North Africa have been identified as of potentially high risk. CDC will monitor these investments carefully to ensure dangers are controlled and adequate systems are in place to mitigate risk.

CDC's fund managers have investments in four countries in North Africa



ALGERIA
EGYPT
MOROCCO
TUNISIA

CDC's fund managers have investments in 12 countries in Latin America

ARGENTINA
BRAZIL
COLOMBIA
COSTA RICA
ECUADOR
EL SALVADOR
GUATEMALA
HAITI
MEXICO
PANAMA
PERU
ST. LUCIA

1–5 investments   6–14 investments

Regional trends

North Africa

The global financial crisis was slow to reach North Africa and despite a decrease in export earnings, the region did record positive GDP growth over the year. Across North Africa, 2010 should be dominated by the return to growth of trade with the EU, especially for Morocco which is making much progress towards a free trade agreement.

Domestic consumption across the region has remained high as has inter-regional trade. This has enabled stimulus packages in Egypt and elsewhere which, whilst increasing budget deficits, have allowed increased investment in vital infrastructure and services to continue.

New regulations in Algeria concerning foreign ownership of companies have made the country less attractive to investors. Sectors that have been particularly hard hit in 2009 include the manufacturing and hydrocarbon industries. By contrast, the Tunisian economy has remained strong and by October 2009, had seen stock market increases of 41% over the course of the year.

In Egypt, the political debate is heavily influenced by uncertainty over who will succeed President Mubarak, now aged 81. Parliamentary elections this year may lead to social discontent, particularly in large communities with high levels of unemployment. It is possible that the government's current liberal economic outlook will be constrained by broader social considerations.

CDC made £26m of new investment in the region in 2009.

Latin America

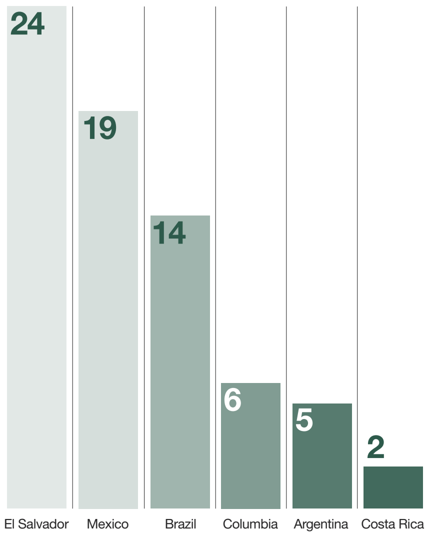
Prospects for growth remain mixed across Latin America in 2010. Brazil is the region's biggest success story – government stimulus measures resulted in the stock market returning to near September 2008 levels by the second half of 2009. The 2010 Brazilian election will be crucial to determining the future direction of the economy although from an investor's perspective, it is of low risk.

Mexico's economy by contrast has contracted badly in 2009, affected by a strong dependence on the US markets, as well as depressed oil prices and the outbreak of swine flu. With the government lacking a comprehensive reform agenda, full recovery seems likely to be protracted.

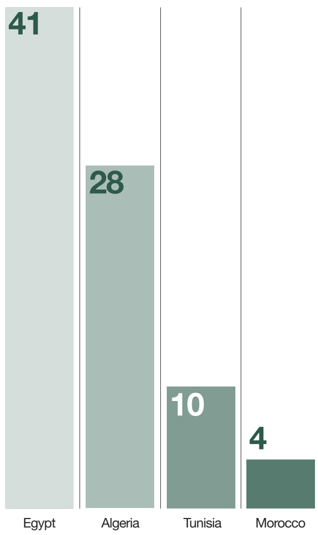
In Andean South America, prospects for economic growth look very promising, especially in Ecuador and Peru. Growth could be slowed by the severity of potential social protest, especially in Bolivia where the President is seeking to implement a new constitution.

From the private equity perspective, CDC helped to pioneer the Andean market which is the most underdeveloped in the region. CDC has backed Altra Capital, a pioneering and local fund manager. The Andean region is well suited to the modernising role of the private equity industry which can increase competitiveness and facilitate the professionalisation of family-run businesses.

Largest investment destinations in Latin America by portfolio value (£m)



Largest investment destinations in North Africa by portfolio value (£m)



A fund manager's perspective

Aureos, Latin America

The main effect of the 2009 financial crisis was that it led to a more consciously defensive approach to pipeline selection. Aureos focused on deals in sectors that were expected to withstand a slow or zero growth environment. We therefore discarded many investments in sectors such as retail or discretionary spending, which would be affected by an economic growth decline. Investment efforts were refocused on businesses providing outsourcing services and other financial solutions to local SMEs and multinationals.

Our investment strategy continues to be very similar, focusing on sectors that are expected to continue to grow, driven primarily by local demand. The variable of a weaker, slower growing global environment is an additional factor taken into account when investments are screened. Selective opportunities in IT, outsourcing, financial services, consumer goods, homebuilding, health and education continue to be of interest. Opportunities for regional growth and consolidation add to the attraction of any opportunities identified in these sectors.

ESG challenges in the year have been typical of any other year and were not affected by the extraordinary financial and economic events of 2009. Aureos is actively involved in strengthening governance challenges faced by several of our family-owned businesses seeking to transition to professionally run companies. On the social side we are implementing corporate culture changes in companies which are experiencing a combination of rapid, international growth, as well as a transition to professionally run firms. Our portfolio companies during this difficult period have continued with their outreach programs demonstrating their direct commitment to the community. Finally, on the environmental side, our Colombia investment in the oil and gas services sector, Petrotiger, has been recognised locally for its health, safety, environment and quality management practices.

Other Regions continued

El-Rashidi El-Mizan (REM), Egypt

From closed family business to market leader in the Egyptian confectionery industry

El-Rashidi El-Mizan is Egypt's leading producer of Halawa and Tahina – two traditional staple food products made from sesame seeds. The company was established in 1889, whilst its holding company is Middle East Food and Trade (MEF). In 2000, MEF was acquired by Best Foods (before Best Foods subsequent sale to Unilever) to serve as its entry platform in Egypt. In 2002, CDC's fund manager Actis acquired 65% of the equity through ordinary shares and an interest free shareholder loan, in the first management buy-out in Egyptian history.

A key aim for Actis was to transform MEF from a family business to a corporation:

- Actis's ESG team conducted an assessment of governance standards and proposed an action plan to help the business introduce world class best practice.
- A strong Board of directors was assembled, incorporating former Best Foods and Unilever Executives.
- Experienced independent directors were allocated to specific business functions to coach managers.
- Financial reporting capabilities were strengthened including mandating the preparation of monthly dashboards by the finance department. Actis also provided corporate finance support to the management team when evaluating acquisitions.

Actis supported MEF in implementing world-class ESG management systems, particularly in respect to product safety and quality:

- Appointed a dedicated Actis expert to oversee the development of ESG systems.
- Assisted in the implementation of the ISO management system, the OHSAS 18001 Health and Safety Management system and a new Hazard Analysis and Critical Control Points (HACCP) system.
- Established mechanisms to monitor ESG systems and report back to the Board.
- Built a new water recycling system at the main El-Rashidi El-Mizan plant, substantially reducing the quantity of water used.

MEF was sold to Citadel Capital, a Cairo based private equity firm. The sale generated a cost multiple of 4.4 times on investment and an IRR of 35.6%. The high sales price of 410m Egyptian pounds was attributed to MEF's excellent market position and the quality of the business. By the time of exit MEF was a market leader, exporting to 25 countries with double the production capacity and double the product portfolio.

At MEF, Actis was able to encourage core product growth and the successful introduction of new value-added products. Production processes were completely automated and world-class ESG management systems were introduced. The success of Actis' investment was such that when the Principles for Responsible Investment (UNPRI) initiative released a set of nine examples of how sound ESG processes could maximise a company's potential returns, MEF was amongst those included.

Key data

Investment:[1]	£5m
Investment period:	2002-2007
Sector:	Agribusiness – food processing
Fund manager at exit:	Actis
Employment:[2]	700
Cash returned:	US$336m
Cash multiple:	4.4x
Gross IRR:	35.6%

1 £5m was invested by Actis/CDC. CDC's investment in Africa 1 Fund is US$350.1m; total fund size is US$350.1m.
2 2006.

"Actis has demonstrated invaluable support as a value-adding investor in our business. They have worked alongside myself and the team to grow the business aggressively and to adopt international best practice across all business functions. Thanks to this partnership, REM has now completed its transition from being a closed family business to being a developed corporation with institutional shareholders."

Mohamed El-Rashidi,
Chairman of El-Rashidi El-Mizan

Manufacturing at REM

Example of REM products: Staple foods

Sectors in focus

Chapter 4

Businesses of all sizes that span every industry sector have their role to play in fostering sustainable development and economic growth. Successful businesses create employment, generate taxes for domestic governments and offer new services and production capacity where it has not previously existed.

In this chapter we will look at a selection of sectors and how they contribute to economic growth and development.

Chapter 4: Sectors in focus

This year, CDC focuses on the role played by its portfolio of alternative investments, a label that covers microfinance, debt and infrastructure funds as well as co-investments alongside CDC's existing fund managers. The chapter also focuses on the agribusiness, financial services and consumer sectors and shows how each of these can contribute to development.

Alternative investment

In addition to regional funds, CDC is also committed to seven microfinance funds, a specialist debt fund and a fund focused on global infrastructure. The funds, overseen by CDC's alternatives team, often reach individuals at the 'bottom of the pyramid', those underserved by mainstream private equity.[25] CDC is seeking to increase its exposure to debt funds.

Microfinance

Microfinance institutions (MFIs) provide access to credit to the rural and urban unbanked in developing countries. CDC typically commits capital to microfinance investment vehicles (MIVs) which subsequently invest in MFIs.

Microfinance promotes micro entrepreneurship and enables people subsisting at the 'bottom of the pyramid' to develop sustainable businesses. Women in particular are traditionally served by the microfinance industry.

Debt

Debt funding is an essential part of the capital base for promising private sector businesses. Moreover debt funds can expand the depth of the capital markets in areas typically avoided by the private equity industry. This is in part due to the less risky nature of providing debt finance.

For investors, debt funding provides returns with a steadier cash flow, which is particularly important in times when returns from equity investments are more volatile. Over the course of the next few years, CDC is looking to increase its exposure to debt funds.

Infrastructure

Infrastructure spans a range of industries, ranging from electricity generation and distribution to transport and water services. The case for developing the sector is powerful. A recent report by the World Bank's Africa Development Series Forum has found that Africa needs around US$93bn a year to address its infrastructure needs. Infrastructure services in Africa are twice as expensive as elsewhere, reflecting a lack of competition across the sector.[26]

The effects of transforming the sector are equally significant. The key finding of the World Bank report was that infrastructure is responsible for half of Africa's recent growth and the sector can contribute significantly more in the future.

Co-investments

CDC has committed approximately US$110m to six co-investments in investee fund portfolio companies. These include a cleaner technologies electricity generator and an Indian telecommunications infrastructure company. Co-investments are valuable from a developmental perspective as they allow a fund manager to close transactions that would not otherwise be completed.

Microfinance

£26m CDC portfolio value

55 MFIs

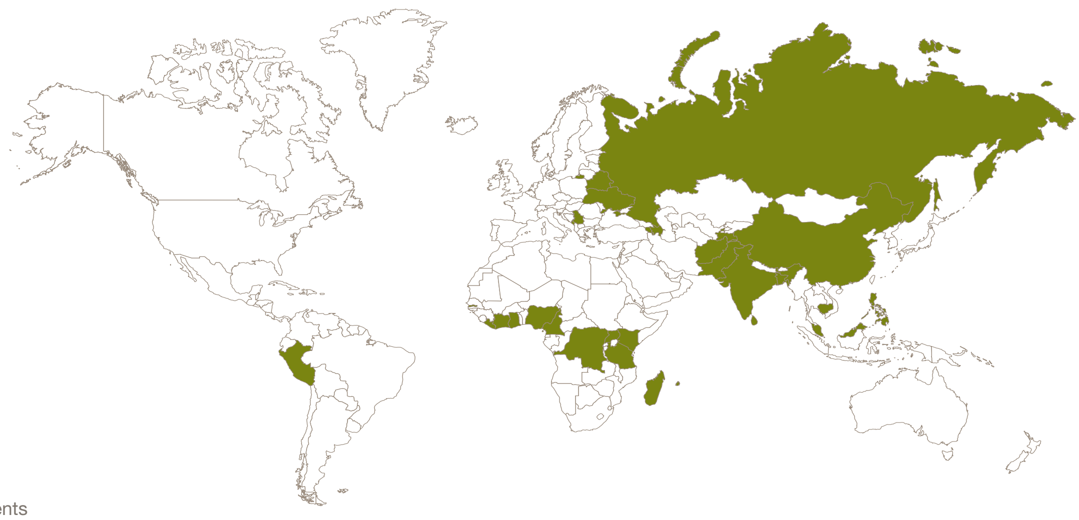
36,000 employed in MFIs in 41 companies reporting data

US$51m taxes paid by the 31 companies reporting data

66% of microfinance borrowers are female

45% of microfinance borrowers are rural

CDC's fund managers have investments in microfinance in 28 countries



Investments

Microfinance review
Under its Investment Policy for 2009-2013, CDC will continue to support pioneering investment efforts in the microfinance sector with a focus on low income countries in sub-Saharan Africa and South Asia. It will also support, where appropriate, existing microfinance managers with their efforts to raise further funds in CDC's key geographies.

CDC's strategy for microfinance has been to invest in greenfield and early expansion equity for commercial MFIs, in so doing committing over US$90m to microfinance equity funds. Over 60% of CDC's microfinance portfolio is focused on India. The remainder of the portfolio has a global orientation although we are targeting an increasing proportion for sub-Saharan Africa in the future.

In 2009, CDC collected data on the MFIs which have received its support. Lok, an MIV based in India, has seen a growth of over 1.1 million in clientele served by its MFIs over the past year. Advans, a broad-based greenfield MIV with a focus on Africa, has seen staff numbers in its MFIs increase by nearly 400 with almost 30,000 new clients receiving loans. ShoreCap, a global MIV, has seen customers of its MFIs rise by 560,000 in the past year. These achievements reflect the growing global impact of the microfinance industry.

CDC has also committed U$30m to a microfinance local currency debt fund that directly addresses the currency risks MFIs face in relation to foreign debt funding. CDC's goal is to continue to support the microfinance sector, with a target of committing up to US$120m in total capital to MIVs by 2011.

Microfinance remains a commercially viable investment opportunity which is strongly aligned with CDC's goals of high development impact. CDC's investments include 55 different underlying MFIs, with a total portfolio value of £26m. CDC is invested in these 55 MFIs through six microfinance equity funds and one local currency debt fund. Fifteen of the MFIs in which CDC's capital is invested are located in sub-Saharan Africa; 36 are in Asia, with 17 microfinance institutions supported by CDC's capital in India. CDC also supports two microfinance institutions in Latin America, with a combined portfolio value of nearly £1m. New investments by CDC's fund managers in microfinance institutions amounted to £7m in 2009.

In India, CDC's microfinance portfolio navigated the financial crisis relatively well. Although liquidity for MFIs was initially tightened, public banks are now lending to MFIs – recognition of the value of the asset class. Despite rapid growth in recent years, the percentage of clients in India at risk of defaulting on loans has fallen from 2.9% in 2005 to 2.2% in 2008. Microfinance in India currently serves 20 million people. The market remains vast though with a potential pool of 120 million further families eligible for funding from MFIs.

In sub-Saharan Africa, microfinance as an asset class lacks a comparable degree of commercial recognition and funding. The number of potential customers is huge: of 300 million economically active people in Africa, only 20 million have access to formal financial services.[27] Numbers of microfinance borrowers have increased significantly in Africa from 2.7 million in 2003 to 7.9 million in 2008 according to data on the Microfinance Investment Exchange (MIX) market.[28]

A fund manager's perspective

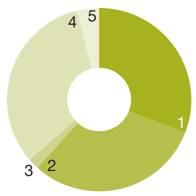
India Financial Inclusion Fund

The financial crisis had an immediate impact on the availability of debt to MFIs, slowing their growth rates. This forced MFIs to cut capacity, reduce costs and focus inwardly on their operational performances. Credit quality deteriorated, but the impact was less severe than anticipated and non performing loans were still under 2% of the portfolio. This provides further evidence that the poor and their enterprises are somewhat insulated from the mainstream economy. Despite the slowing down of growth rates, MFIs were still able to access some debt and equity funding from commercial investors.

One of the positive outcomes of the crisis has been an unintended impact on the low income housing sector. As real estate prices began to fall and housing credit was becoming expensive, developers, with large stocks of land and slowing demand from traditional buyers and speculators, started to focus on developing low income housing projects. This also got very active support from the government, with increased focus on improving the supply of housing stock for low income groups. Supply of low-cost homes is one of the big bottlenecks in resolving the housing problem for the poor in India, whilst the availability of micro-mortgages is the other.

Seizing this opportunity and based on a year-long analysis we made India's first investment in a micro-mortgage lender, Micro Housing Finance Corporation. We expect this investment to catalyse this industry, leading to a virtuous cycle of supply of low cost homes and availability of micro-mortgages for such home owners.

Number of MIVs by region



1 Sub-Saharan Africa **17 (31%)**
2 India **17 (31%)**
3 China **1 (2%)**
4 Other Asia **18 (33%)**
5 Latin America **2 (3%)**

Marguerite Robinson, a microfinance specialist, describes the asset class as "small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro-enterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas".[29]

Sectors in focus continued

New opportunities and challenges

In both India and sub-Saharan Africa, new microfinance opportunities exist:

India
In India MIVs are exploring the possibility of financing low-cost housing. The target clientele for such housing would be customers earning approximately US$200-500 a month. Other options include diversifying existing financial products into areas of current low exposure. This includes micro-insurance, healthcare and education.

Some challenges ahead including regulatory changes to Indian MFIs, particularly with respect to the level of foreign control, will impact on both the capital mix and investor mix going forward. Also, the recent growth in India's microfinance industry has been rapid and this growth may prove unsustainable.

Sub-Saharan Africa
Microfinance is currently centred in two areas; in East and West Africa, particularly in Ghana. Microfinance in sub-Saharan Africa does not receive as much commercial investment as other regions. This is largely due to the fact that the majority of MFIs operate as non-governmental organisations (NGOs) and are not commercial. It remains to be seen whether these can evolve a mentality that recognises the advantages of commercial sustainability as seen in Latin America and South Asia.

Other challenges include attracting commercial banks and foreign investors who to date have mostly provided finance to larger MFIs in Africa. Governance is also weak across many sub-Saharan MFIs. This is exacerbated by weak regulation and a poor understanding of the commercial microfinance market. Finally, there is often a shortage of capable local and expatriate management talent on the ground.

Spandana Sphoorty Financial Services Limited, India

A microfinance institution driving a microfinance revolution

India, with a population of over one billion, has a greater number of people living under the poverty line than any other country in the world. Almost 40% of the rural population and 20% of the urban population lives in poverty. These individuals have limited access to finance from traditional financial institutions and remain largely unbanked. Microfinance, through its provision of micro-loans and its emphasis on micro entrepreneurship, offers a potential way out of poverty.

Spandana Sphoorty is an Indian MFI that operates 1,353 branches spanning 12 provinces in India. The target clientele is the population segment known as the 'bottom of the pyramid' – individuals earning up to US$4,000 per annum. Spandana's client profile of 94% female and 55% rural borrowers is evidence of a reach beyond that of more traditional national and regional banks.

The micro-loans Spandana offers average US$237. The MFI offers a range of loan products – from the basic 'general loan' targeting daily wage labourers and traders to more specific loans targeting micro businesses or specific sectors (such as agriculture and dairy). Spandana is also pioneering new products and services to its clients, recently launching a maternity hospital providing pre and post-natal care for low-income women.

Lok Capital, as an equity investor in Spandana, has had added operational value since its investment. The team has helped develop the organisational and governance structure as well as assisting in senior management recruitment. Lok has also played a key role in developing Spandana's business model and defining the company's growth and financing strategies. Through an active board seat, Lok continues to add value to Spandana playing a pivotal role bridging investors and management. Spandana has grown to be one of the largest MFIs in India operating with a very lean cost structure and charging lower rates of interest than many other MFIs.

Over the course of 2009, Spandana continued to grow its loan book at a rate of 90% year-on-year and its active borrower base which grew at 70%. The MFI is a profitable institution and in 2009 had over 9,000 employees, paid US$14m in tax and disbursed over three million micro-loans.

Spandana Sphoorty is driving the revolution across India to broaden access to finance to those underserved by traditional banks. By financing local entrepreneurship, Spandana provides a sustainable route out of poverty.

Key data

Investment:[1]	US$2.25m
Investment period:	August 2007- present
Sector:	Microfinance
Fund manager:	Lok Capital
Employment:[2]	9,643
Employment growth:[3]	78%
Number of borrowers:[2]	2.4 million
Number of branches:[2]	1,353
Portfolio at risk – 30 days:[2]	0.51%
Taxes:[2]	US$14.3m
Female borrowers:[2]	94%
Rural borrowers:[2]	55%

1 US$2.25m was invested by Lok I in 2007. CDC's commitment to Lok I is US$4m; total fund size is US$22m.
2 As on December 2009.
3 December 2008 to December 2009.

Microfinance in Africa

Clients of Spandana Sphoorty

Debt funds

The financial crisis has contributed further to the scarcity of debt capital for companies and infrastructure projects in sub-Saharan Africa. CDC aims to address this market failure by investing in debt funds.

One advantage of debt funds for CDC is the prospect of stable, long-term returns. CDC also hopes that investment in debt funds will help to strengthen and deepen the debt capital markets in Africa resulting in the development of a yield curve.

The provision of debt can play a significant role in developing the private sector in emerging markets. Debt finance can be directed more easily towards underfunded areas of the economy or assisting banks to expand into new geographies and markets. Moreover, finance in the form of guarantees allows capital to be directed into riskier markets where private equity is reluctant to invest. Catalysing underdeveloped markets of this sort is a primary reason why development finance institutions (DFIs) play an important part in private sector development.

There are, however, obstacles to debt funds that require careful management. In sub-Saharan Africa in particular, there is currently neither a culture of using debt funds nor broad awareness of the role debt funds could play in providing capital for businesses and especially small and medium sized enterprises (SMEs).

CDC's role

CDC has already invested in several debt funds, including Cordiant Capital's International Finance Participation Trust (IFPT), that supplies syndicated 'B' loans shared between the DFI community. The fund allows DFIs to attract commercial capital to participate in co-financing projects through the sale of loan participations.

IFPT has a total fund size of US$370m and investments spread over a broad geography and range of industry sectors. This diversity allows risk to be minimised and offers the broadest possible scope for further investors to participate in structured, market-priced loans to emerging markets.

Another investment in a debt vehicle is CDC's US$75m commitment to the Global Trade Liquidity Programme (GTLP). The GTLP is designed to help address the shortage of trade finance across developing countries. It stands as an example of how CDC and the broader DFI community has responded to the credit crisis in a manner that will enable trade to keep flowing.

In developing economies as a whole, private sector lending is under-developed running at just 20% of total banking assets as opposed to 34% in India and over 83% in the United Kingdom. If the right opportunity arises, CDC will seek to invest in debt funds particularly in sub-Saharan Africa where market liquidity is low.

Infrastructure

CDC has committed US$500m to Actis Infrastructure Fund 2 and contributed US$130m of previously owned assets. The fund, which has an experienced team based in Singapore, Mumbai and London, seeks to develop transport and power generation assets in emerging markets. Over the next few years, CDC will look to the Actis Infrastructure Fund to be at the forefront of its commitment to narrowing the infrastructure gap between developed and developing nations.

Songas, one of the assets transferred by CDC to Actis Infrastructure Fund 2, is one of the largest single investments in CDC's portfolio. Songas is the principal electricity supplier to Dar es Salaam in Tanzania. It generates electricity from natural gas, sourced through a 225km pipe from a gas processing plant on Songo-Songo island. Electricity produced by Songas is cost-effective, clean and reliable.

A second power company within the portfolio is Umeme. Umeme is Uganda's principal power distribution company. A large part of the power Umeme distributes is now generated from hydroelectricity.

CDC has also invested in cleaner technology infrastructure with a commitment of €10m to Berkeley Energy's Renewable Energy Asia Fund (REAF). REAF will support private sector companies aiming to supply the growing demand for clean energy infrastructure in Asia. It will seek to make equity investments in renewable projects with a focus on wind, hydro, biomass and solar power.

Songas in Tanzania

Infrastructure development project

Sectors in focus continued

Agribusiness and forestry

The majority of the population of the poorest countries in CDC's investment universe live in areas where the agribusiness and forestry sectors assume an important role. Consequently the sectors have significant developmental and environmental potential, in addition to the prospective generation of attractive commercial returns. CDC is exploring opportunities to increase its investments in these sectors and decided to commit to a new sub-Saharan Africa forestry fund at the end of 2009.

Development case for CDC involvement in agribusiness

In developing countries, agribusiness and forestry is a vitally important source of income and employment. Indeed, in the poorest countries, the sector creates up to 34% of GDP and maintains as much as 64% of the working population in employment.[30] Agribusiness covers opportunities ranging from crop and livestock production through to processing, storage, distribution and marketing.

Developing agribusiness provides investors with the opportunity to foster sustainable growth in developing countries. In sub-Saharan Africa for instance, over 60% of the population live in rural areas and most are dependent on agriculture for their livelihoods, often through subsistence means. Moreover, with the global population predicted to reach nine billion by 2050, demands on the sector are certain to increase. In Africa, this provides a considerable opportunity – a young population, underdeveloped infrastructure, fertile soils and scope for improving the efficiency of production means agribusiness has vast potential within the region.

As an industry sector, agribusiness and forestry have been important for CDC historically although the financial returns have been mixed.

CDC has observed that investment in high-value agricultural goods in areas of fecund natural environments and the production and processing of staple goods for local markets have been successful in the past. Whilst CDC's investments typically focus on commercial agribusiness, subsistence farmers can also benefit by tapping into the infrastructure and transportation improvements necessary for commercial agribusiness to achieve financial success.

CDC is currently invested in two funds specific to the agribusiness sector; one is focused on Africa, the other on India. In 2009, CDC decided to commit to a sub-Saharan forestry fund in order to target this specific asset class.

CDC's current portfolio in agribusiness spans 40 companies and accounts for 4.6% of CDC's portfolio value. The main investment destinations include sub-Saharan Africa where CDC is invested in a total of 13 agribusiness ventures, China with eight investments, India with six investments, and Indonesia and Tunisia with three investments respectively. CDC's portfolio companies are involved in all parts of the agribusiness food chain from crop production through to processing and marketing.

There are currently 114,000 people employed across CDC's investments in agribusiness. The large number of employees is evidence of the high labour intensity typical of the sector. Nonetheless, large scale ventures can be successful, something evident from the US$315m paid in local taxes by the 25 companies reporting such data in 2009.

£65m CDC portfolio value

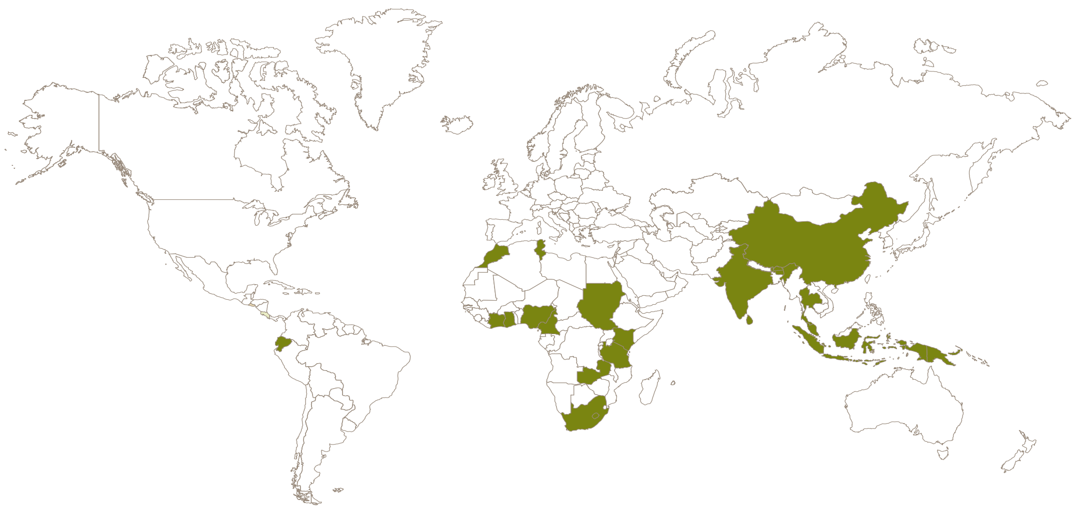
£28m invested in 2009

40 portfolio companies

114,000 employed in 30 companies which reported data

US$315m taxes paid by the 25 companies which reported data

CDC's fund managers have investments in agribusiness in 18 countries



Investments

Challenges and risks

Agribusiness and forestry face specific challenges that impact the potential returns expected from investment across the sector. Challenges specific to agribusiness include inclement and severe weather, vulnerability to crop diseases and changes in market and dietary trends. Long term climate change will likely have an impact on growing conditions in many regions and the sector will be forced to consider new products and innovations.

The international commodity markets in primary products are also currently relatively volatile and many observers expect this to persist.

Moreover, investments in agribusiness and forestry often assume a political dimension due to the sensitivity of the question of land ownership in many developing countries. In Africa for instance, up to 95% of forest land is state-owned under government concessions, an added complexity when undertaking business in the sector.

A consequence of the recent financial crisis is a worrying trend of protectionist policies being levied by high-income countries against developing countries. Despite this, CDC recognises that the sector remains of immense developmental value.

The GEF Africa Sustainable Forestry Fund

In early 2010, CDC approved US$50m to a sustainable forestry fund focused on sub-Saharan Africa ('GASF'). GASF was the outcome of a request for proposals issued by CDC in December 2008. CDC identifies forestry as a sector which was short of capital, but with significant development impact. Financial prospects look sound as evidenced by the findings of a consultancy report which had posited that lower income countries in Africa had a comparative advantage in the production of timber. Forestry as an asset-class offers the prospect of consistent long-term returns. The timber produced can be used as both an export commodity and for local manufacturing and housing infrastructure.

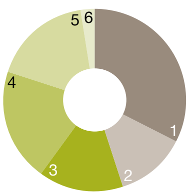
Ecological benefits potentially arise as a side-effect of sustainable forest management. Benefits include the prospect of reducing carbon emissions, protection against soil erosion and the preservation of bio-diversity. The potential to harness additional capital from carbon sequestration and trading has recently made the sector more attractive to investors.

Although the forestry sector has developed significantly in Asia and the Americas in recent years, Africa remained underrepresented. This is in spite of considerable natural advantages offered by certain areas of the continent for sustainable forestry. These include high average temperatures, decent rainfall, favourable growing conditions and amongst the lowest plantation establishment and harvesting costs of any region in the world. With CDC's investment policy directed specifically at sub-Saharan Africa, a forestry fund therefore represented an opportunity to reach low-income, rural populations with few other opportunities for sustainable economic growth.

Managing forestry projects is challenging in Africa. According to the African Forestry and Wildlife Commission, Africa had the highest frequency in 2006 of forest fires. There is also a shortage of managerial skills. Lastly, many local communities directly depend on the land for subsistence livelihoods. To the experienced fund manager though, such issues provide opportunities to add to the value chain for forestry projects and help assist the development of local transport infrastructure and processing, harvesting and marketing potential.

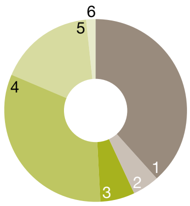
Research produced by Forum for the Future has indicated that forestry funds are able to achieve internal rates of return in the region of 10-13% across the sector. With the necessary commercial background therefore, CDC expects a specialist fund manager to achieve returns at this level and by so doing, attempt to foster the potential of what is a relatively undermanaged resource in many African countries.

Number of companies by region



1 Sub-Saharan Africa **13 (32%)**
2 North Africa **5 (13%)**
3 India **6 (15%)**
4 China **8 (20%)**
5 Other Asia **7 (17%)**
6 Latin America **1 (3%)**

Portfolio value by region



1 Sub-Saharan Africa **£25m**
2 North Africa **£3m**
3 India **£4m**
4 China **£21m**
5 Other Asia **£11m**
6 Latin America **£1m**

Sectors in focus continued

Forestry investments require long term support and input. An example of such an investment in CDC's portfolio is Kilombero Valley Teak Company (KVTC), described in detail below.

KVTC, Tanzania

A sustainable teak plantation and forestry business in rural Tanzania

The establishment of a sustainable forestry business is a challenging task under any circumstances, but especially so when it is a greenfield project. This was precisely the task undertaken at Kilombero Valley Teak Company (KVTC), which first received funding from CDC in 1992 to finance the establishment of a world-class sustainable teak plantation in the Kilombero region of Tanzania. The business has only recently begun to produce revenues; its sawmill began processing in 2009.

KVTC is located inland in Southern Tanzania. The region is one of Tanzania's poorest with few established industries and a chronic lack of employment opportunities for the local population. KVTC's objective of developing a profitable forestry business including primary and processing operations has created considerable employment in the area.

CDC invested in KVTC as sole shareholder following a joint feasibility study with the Tanzanian government. Following the feasibility study, KVTC was granted title to over 28,000 hectares (ha) of land in the Kilombero and Ulanga valley districts. Actis took over management of CDC's investment in 2004 and has completed subsequent rounds of funding in the company, including debt and equity financing from Finnfund. Since 1992, a total of US$25.4m has been invested in KVTC by CDC. Some sections of the 7,800ha of planted teak are now sufficiently mature for clear-fell harvesting to be undertaken, supported by commercial thinning from younger plantation compartments, which are processed in KVTC's on-site sawmill.

KVTC has been developed and operates to the highest environmental standards and industry best practice. The company conducts extensive biodiversity and topography surveys prior to undertaking any planting activity. To date less than 30% of the land has been planted with the remainder having been set aside for conservation and environmental protection. KVTC has used a 'mosaic' style plantation scheme across its four sites, so as to ensure that animal migratory pathways are undisturbed. In addition, the layout maintains buffer zones to protect local waterways and the indigenous evergreen forests. As a result of its efforts, KVTC attained ISO 14001 accreditation in 2004.

KVTC has brought substantial benefits to the local community. It is the largest employer in the local area with around 250 permanent employees. In addition to direct employment, the company provides an additional 700 jobs through local contractors and the company's outgrower scheme. Through this scheme, KVTC supports the plantings of small scale teak growers and provides technical assistance and advice until the trees are fully established. The aim is to reach a first harvest after 15 years and generate additional revenues for the local population.

The company furthers its community impact through the support it provides for local businesses and by financing infrastructure developments for the surrounding community. Villages in the Kilombero and Ulanga districts are encouraged to participate in the company's operations through a village contract scheme. KVTC has also made significant donations to local institutions, recently giving TZS28m (US$21,000) to a scheme promoting the establishment of local classrooms.

KVTC completed a state-of-the-art sawmill in 2009 as part of its longstanding aim to process the trees in the same region in which they were grown. 150 local people were employed during the nine month construction period and the completed facility now employs 120 people, 70% of whom are local. These individuals have the chance to gain valuable new forestry processing skills including planing, finger jointing and moulding; this will provide benefits for the community in the future.

KVTC's new mill will also process teak logs bought from local smallholders and outgrowers and some sustainably harvested natural forest logs. KVTC has made significant progress in fulfilling its aim of becoming a sustainable forestry operation.

Key data

Investment:[1]	US$25.4m
Investment period:	December 1992-present
Sector:	Agribusiness – Forestry
Fund manager:	Actis
Employment:	250

1 Total of US$25.4m was invested by CDC and managed by Actis. CDC's investment in Actis Agribusiness Fund US$92.7m; total fund size is US$92.7m (100% CDC).

Managing teak trees

The tree nursery at KVTC

Financial services

Financial institutions represent 19.7% of CDC's portfolio and span CDC's entire investment universe. The global financial crisis has impacted financial service companies world-wide. Despite the challenges faced by the financial services sector, it is worth remembering why the sector is important in generating economic growth and building a route out of poverty.

Why develop the financial services sector?

The global financial services sector has been under severe pressure in 2009 as a consequence of the financial crisis and the resulting scrutiny of capital structures and lending practices. The crisis has not affected all banks equally. Many emerging market banks followed a more traditional banking philosophy and were relatively unexposed to the 'toxic assets' and capital leverage behind the crisis in American and European banking.

CDC's fund managers typically invest in regional banks with a local, lower-middle income customer base. Such institutions fuel local economic growth by allocating capital to people underserved by international or, more typically, national banks. Although it is microfinance that tends to focus on the very poorest in society, studies suggest that the deepening of the whole financial services sector leads to higher rates of capital accumulation and higher levels of per capita income.

It is envisaged that CDC's investments in the sector will enable more people to benefit from access to credit where it was previously unavailable. By providing credit for productive local enterprises and secure savings and insurance facilities, the financial services industry in emerging markets can stimulate poverty reduction.

CDC's portfolio in banking is typified by its portfolio in India where many of the banks in which CDC's capital is invested are regional or even sub-regional. One example is the Catholic Syrian bank in which CDC is invested through AIF Capital. Having received equity investment, this bank has expanded its number of branches within South India. The overall ethos of the bank, focused on maintaining traditional relationships between bank and client, has remained very much the same. This benefits the bank's local, often rural, clientele who wish to save and use a bank which they feel they know personally and trust. Banks of this type are also more likely to target clients of the so-called 'missing middle' underserved by larger banks and microfinance institutions.

A second benefit offered by private equity investment lies in the field of corporate governance. Whilst barriers to establishing a bank are relatively low in much of South Asia, expertise in negotiating and managing the business in an industry dominated by larger national banks is often lacking. Private equity offers a solution to this problem, typically through the fund manager's representatives serving on the Board of directors of the banks, helping instil governance best practices and appropriate checks and balances. These practices can also help the bank's expansion plans as well.

Financial services is the single largest sector by value in CDC's portfolio. Sub-Saharan Africa represents 71% of CDC's portfolio value in financial services with 13% in North Africa and 13% in Asia. CDC's investment in the sector spans therefore its entire investment universe and although the sector has been pressurised in 2009, CDC expects that it will continue to prove successful.

£278m CDC portfolio value

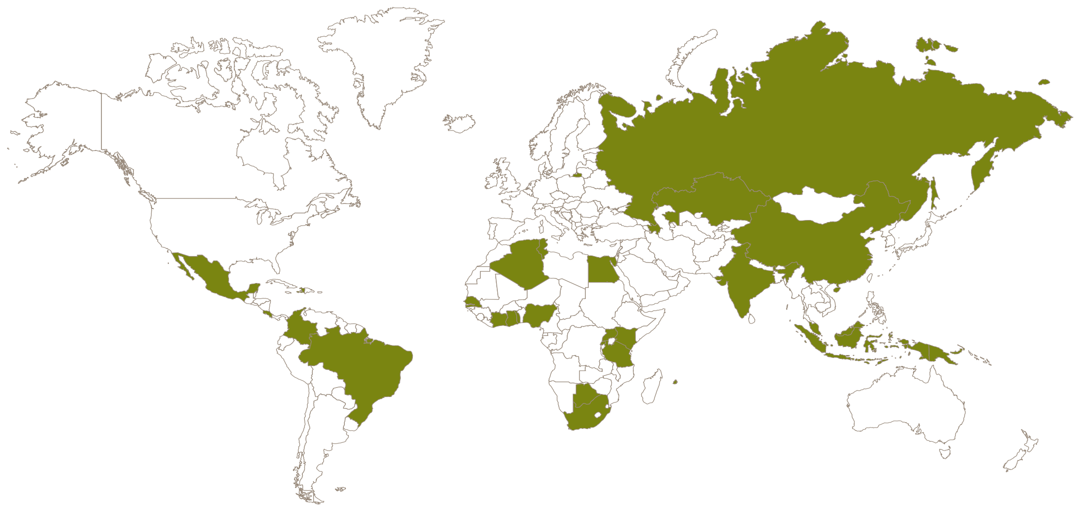
£132m invested in 2009

206 portfolio companies

96,000 employed in 151 companies which reported data

US$736m taxes paid by the 71 companies which reported data

CDC's fund managers have investments in financial services in 30 countries



■ Investments

Sectors in focus continued

The impact of the financial crisis in the emerging markets

A significant consequence of the financial crisis was a broad loss of confidence in how financial institutions function, the effects of which will continue to be felt for some time. Insight can be drawn from Foreign Direct Investment (FDI) flows directed into emerging markets.[31] These flows increased to both Africa and Asia throughout 2008 and even increased in the quarterly comparison in the first quarter of 2009. Since then pledged FDI to emerging markets has fallen significantly.

Another consequence of the crisis is an increasing reluctance on the part of many international banks to follow the models of HSBC and Standard Chartered in building their market presence. This lack of capital for banks will make the role of private equity increasingly important in stimulating growth at financial institutions by providing capital for growth and expansion of smaller banks. Maintaining this capital will be vital for the sector's future development.

Fortunately, there is optimism that fund managers will continue to invest in financial services. The main reason is that local and sub-regional banks value the strengthened governance that private equity brings, which in turn serves to attract and instil confidence amongst its local clients and grows its customer base.

Improving governance can also attract further investment in a bank. An example of this is provided by Centurion Bank in India which received investment from CDC's fund manager, IDFC, in 2006. After building its distribution reach, the bank was merged with HDFC which wanted to strengthen its own retail distribution network, particularly well served by Centurion Bank.

A further reason for optimism across the financial sector is that new markets are opening up to the financial sector. An example of this is Vietnam, where the financial sector now welcomes foreign investment. Although foreign investors are not permitted to obtain majority positions, they are able to acquire significant minority stakes in a manner that is seen elsewhere in Asia.

Current challenges and risks

Globally, the effects of the financial crisis will continue to be felt at all levels of the financial services industry which will be more heavily scrutinised. Two nations will be used as cases to illustrate the point.

The first is India which saw high credit growth in the period up to 2008 due to lenient lending standards. As an industry portfolio, loans books from Indian banks are comprised roughly as follows; 56% are corporate, 23% retail, 12% agricultural and 9% small scale industry.[32] In the future, there is an increased risk that these assets face a far greater likelihood of becoming non-performing.

It is the loans to companies of all sizes that are likely to suffer most. This is due to the cyclical decline in some Indian business, especially export businesses which are affected by protectionism and decreasing demand overseas. This includes auto-components, jewellery and the textiles sector.

Coupled with an unusually severe monsoon in India, a particularly vulnerable category of income group served by the Indian financials sector has been placed under increasing pressure.

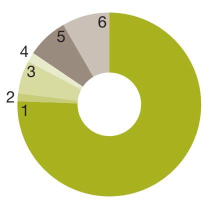
Over the short to medium term, India's regional banks will also face increasing pressure as the risk of non-performing or delinquent assets increases. Private equity can help such banks fulfil their growth objectives in the case of alternative funding not being available.

A second example of a challenge posed by the financial crisis to the financial sector is exemplified by Nigeria in 2009. Prior to the crisis, many leading Nigerian banks lent heavily to their national oil and gas sector. When the market turned and share prices in these companies fell, many Nigerian banks concealed the risk of defaults on these, often large, loans.

The findings of an audit by Nigeria's central bank revealed the scale of the problem and in addition, a trend of favourable loans being offered to associates of many of the banks' executives. Nine CEOs have been implicated and a scandal has cast a shadow over the entire sector of the Nigerian economy.

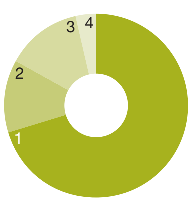
Nigeria's crisis may have a positive outcome. Nigeria recognises the necessity of a more transparent and better managed financial sector. DFIs, through their fund managers, with their experience of improving corporate governance practices will have an important role to play in engendering such a change.

Number of companies by region



1 Sub-Saharan Africa **156 (76%)**
2 North Africa **3 (1%)**
3 India **12 (6%)**
4 China **3 (2%)**
5 Other Asia **15 (7%)**
6 Latin America **17 (8%)**

Portfolio value by region



1 Sub-Saharan Africa **£196m**
2 North Africa **£35m**
3 Asia **£37m**
4 Latin America **£10m**

"African banks are amongst the healthier financial companies anywhere in the world, having been relatively shielded from the toxic assets that are now laying waste to U.S. and European financial institutions."

E.B. Kapstein, Foreign Affairs, July/August 2009

Consumer

Income levels and expenditure in developing countries have been rising over the past decade. 16% of CDC's portfolio is invested in businesses managed by entrepreneurs seeking to meet rising consumer demand. The projects in which CDC is invested are varied, ranging from SMEs to fast moving consumer good companies (FMCG) to retail developments.

The development case

The consumer sector spans a variety of different sub-sectors that fall under the generic label 'consumer'. These include retail businesses (from SMEs to FMCGs to large retail developments) but also hotels, tourism, restaurants, media and travel.

Income levels and consumer demand have been increasing in developing nations. Indeed, the number of households with a nominal disposable income of over US$5,000 has doubled from 217 million in 2003 to 500 million in 2008.[33] Even consumers with low incomes often have discretionary income, as witnessed by the mobile phone revolution in Africa where subscribers across the continent rose from 36 million in 2003 to 224 million in 2008. Supplying this demand presents many interesting opportunities for investors.

Growth in the consumer sector benefits in part from the rapidly rising number of middle class households and youth in developing nations. 'Middle class' here should not be equated though with the image of the consumer sector in high income countries. Much consumer expenditure in emerging markets centres on access to very basic products – soap, textiles, stationery and food.

Investment from fund managers can help local companies realise opportunities available in the consumer sector. Means of doing this include financing a company to expand its share of the domestic market, extending distribution networks and by helping management to become more professional. This in turn increases local production and reduces dependence on imported commodities. Building up the consumer sector in this way therefore creates the conditions for economic growth, which in turn reduces poverty.

Moreover, the informal sector can also benefit from the impact of developing the formal consumer sector. A retail development for instance can attract local retailers and SMEs to the vicinity where they know consumers will be. Jobs are created not just as retail staff within the development itself but also in the fields of maintenance, security and logistics.

CDC's portfolio in consumer

The consumer sector is an important one for CDC with a total portfolio value of £220m and new investments totalling £43m in 2009. The number of companies indicates that CDC is invested in many small-scale consumer businesses as well as larger projects. An example of a fund manager specialising in such investments is GroFin, discussed on page 50.

CDC's investments in the consumer sector are spread across 28 countries. CDC backs 31 consumer projects in China, 27 in India and eight in South Africa through its fund managers.

184,000 people are employed in the 94 companies reporting employment numbers in the consumer goods and services industry. There is a heavy informal side to work in this sector and so one would expect broader economic impact beyond what can be measured here. This is illustrated by CDC's investment in the Accra Mall, also discussed on page 50.

£220m CDC portfolio value

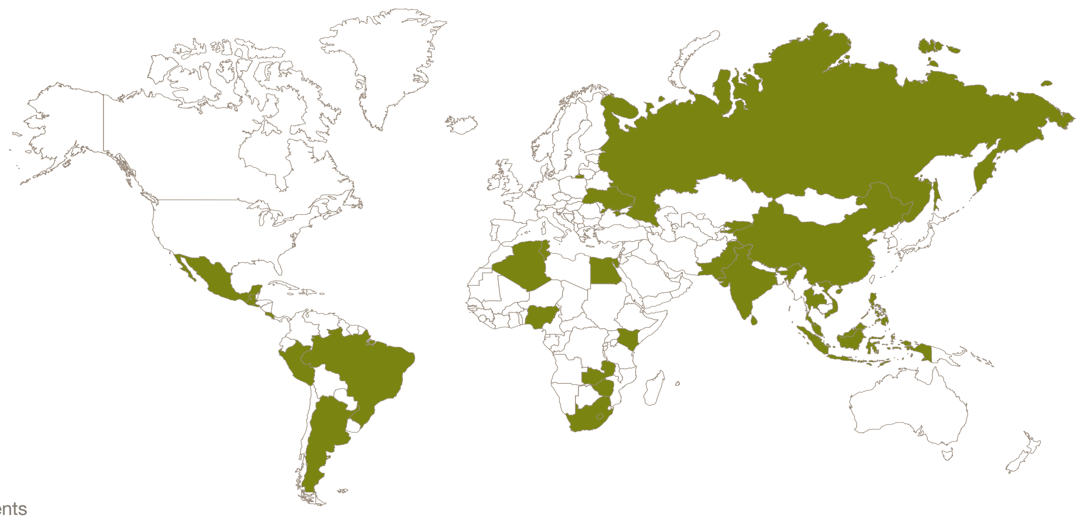
£43m invested in 2009

121 portfolio companies

184,000 employed in 94 companies which reported data

US$325m taxes paid by the 80 companies which reported data

CDC's fund managers have investments in consumer goods and services in 28 countries



Investments

Sectors in focus continued

Below are two examples of investment opportunities in the consumer sector.

GroFin East Africa

Developing the SME sector in East Africa

CDC's capital is used to provide growth capital to SME funds which invest heavily in the consumer sector. One such fund is GroFin East Africa, which has provided a combination of finance and business support to a total of 48 companies, nearly 30% of which are in the wholesale and retail sectors. Other companies which received support include hostels and restaurants. GroFin's approach is to work closely with African entrepreneurs to formalise their businesses and assist them to increase their share of the domestic market. This translates into social benefits such as job creation, attesting to the belief that SMEs can serve as a powerful engine of economic growth.

Two examples of GroFin's investment in the consumer sector are the Join Hands Association in Rwanda and the Nana Hostel in Uganda.

The Join Hands Association is a bakery with 13 staff located in Kigali. The company supplies good quality bread to retail resellers. GroFin's investment of US$50,000 in 2008 was matched by a further investment of the same amount by Banque Commerciale du Rwanda. In addition to its provision of finance, GroFin has worked with the company's management to implement training on hygiene, safe use of equipment and efficient waste disposal. By the end of 2008, the company had been admitted into the association of Kigali bakers, an achievement likely to add to its success.

Nana Hostel provides safe, clean and modern accommodation to 1,000 students attending Makerere University, the largest in Kampala. GroFin provided guidance on starting and sustaining this business. It also provided finance to enable both the completion of the initial project and an additional loan for a further three floors. The project has created jobs for 150 construction workers and will provide 16 full time jobs within the building upon completion. Upon exit, GroFin realised an internal rate of return of 18% upon the first loan and 22% on the second.

Accra Mall, Ghana

Increasing access to goods, providing jobs and generating taxes

Accra Mall was officially opened in July 2008 by the Actis Africa Real Estate Fund and is Ghana's first and only Grade-A retail development. It consists of 19,000 square metres of lettable space, over an 11 acre site and has parking for 800 cars. Construction of the development took two years. At the peak of construction over 700 people were employed.

The development is 99% let with 69 retailers, including major banks, pharmacies, department stores and a cinema. Investment in shopping centres can have significant positive social and economic impacts, both direct and indirect.

Business activity is increasing and stimulating further growth for the local community through additional job creation and contracts and increased knowledge passed onto local suppliers. Some businesses in the Mall are new to Ghana and provide access to products which previously were either unavailable locally or prohibitively expensive. Contracts for cleaning, security and maintenance have been awarded to local suppliers, thereby providing the local community with further employment and income.

Businesses in Accra Mall generated an estimated US$4.3m in sales tax for the Ghanaian government in 2008. It is projected that taxes, rates and fees of US$60m will be accrued from retail tenants over a ten year period.

Actis managed the entire development of the Mall from concept to completion. Actis has developed sustainability guidelines for real estate funds and provided these guidelines to the Mall's designers and builders. The guidelines follow international best practice and include measures to increase the energy efficiency of the building. Actis has also developed comprehensive health and safety guidelines, specifically designed for real estate investments in emerging markets.

Following the initial success of the Accra Mall expansion, there are plans to increase the space within the development, introducing new companies to Ghana's formal retail sector and generating further tax revenues for the Ghanaian government.

Key data[1]

Investment:[2]	US$16.2m
Investment period:	2006-present
Sector:	Real Estate Management and Development
Fund manager:	Actis, Africa Real Estate
Employment:	900 (direct); 300 (indirect)
Turnover:	US$4.7m
Turnover growth:[3]	1003%
EBITDA:	US$2.2m
Taxes paid:	Tax exempt for 5 years. US$4.3m in sales tax from retail tenants[3]

1 From year-end 2008, except for when stated otherwise.
2 US$16.2m has been invested by Actis to date. CDC's investment in Actis Africa Real Estate Fund is US$154m. Total fund size is US$154m (100% CDC).
3 2007-08.

Join Hands Association Bakery

Nana Hostel in Kampala

Chapter 5

Initiatives taken in 2009

CDC aims to be a leader in promoting responsible and sustainable investment in emerging markets. As part of this, CDC has commissioned guidance material to help its fund managers on issues that have significant bearing. Two such initiatives in 2009 included a climate change study and a study of issues relating to gender and gender inequality.

CDC has also updated its Toolkit for fund managers in order to demonstrate how successful management of ESG issues can add value to growing businesses.

Chapter 5: Initiatives taken in 2009

CDC aims to be a leader in promoting responsible and sustainable initiatives in the businesses backed by its fund managers. In 2009, CDC commissioned guidance material to help its fund managers on both climate change and issues relating to gender. The updated toolkit will provide fund managers with an improved set of tools and frameworks to address challenges at all stages of the investment process.

Climate change

CDC's response
Recognising that climate change is a pressing and immediate issue in all markets, CDC decided to produce guidance to help educate both its fund managers and their portfolio companies about climate change. The guidance sets out the opportunities presented by climate change as well as the risks.

To produce its guidance, CDC turned to Forum for the Future for assistance. Forum for the Future is a sustainable development charity that works with both business and public sector bodies to devise sustainable strategies and new products and services.

The result was CDC's new climate change guidance for fund managers. Some of the tools resulting from this survey are explored overleaf.

Climate change risks
Climate change is already starting to change the competitive environment in which companies operate. A Carbon Disclosure Project report surveying 500 leading firms across a range of industries has found that over 80% believe that climate change will present some sort of commercial risk. This risk will in turn transform the competitive environment in which companies operate.

The types of risk that climate change presents to businesses vary between industry sectors and locations. Certain themes can be highlighted to suggest how climate change can impact less economically developed countries.

Physical risks – The most frequently stated example is the increased risk of extreme weather. The World Bank has produced a list of countries most at risk of climate disaster:

- Drought – Malawi, Ethiopia, Bangladesh
- Flood – Bangladesh, China, India
- Storm – Philippines, Bangladesh, Madagascar
- Coastal flooding – low-lying islands, Vietnam, Egypt
- Agriculture – Sudan, Senegal, Zimbabwe

All the countries listed here except China, Egypt and the Philippines are low income countries, which makes them especially vulnerable due to a lack of a budgetary capacity to respond.

Operating costs – These will rise. Businesses might experience effects such as disruption to their supply chain and issues relating to water availability.

Regulatory risks – New regulation will have impact on businesses. This will be influenced by consumer and political pressure, as well as demands for innovation and new products.

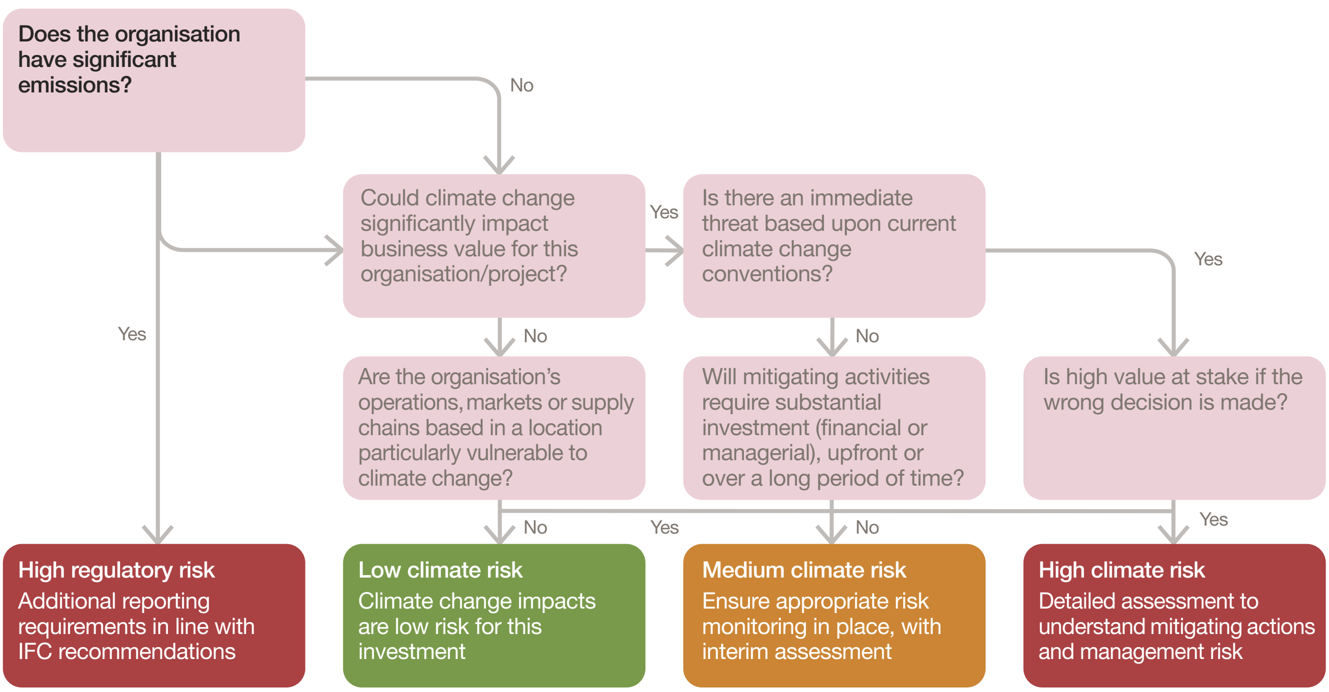
Opportunities arising out of climate change
Climate change is not just a risk to businesses. Proactive management can also exploit opportunities for corporate growth arising from the new circumstances.

Innovative product design – Opportunities may arise for new product lines that can take advantage of a changed competitive environment. Consumer preference may switch to low carbon products.

New markets – New markets can open up as a result of climate change. One example is the clean energy market which is expected to grow from US$77bn in 2007 to over US$254bn in 2017.[34]

> "In order to increase adaptive capacity to meet these challenges, development agencies need to continue to support developing countries in the principles of good economic policy. This will require processes to integrate climate issues into economic planning and the budget process."
>
> Source: DFID (2004).[35]

Decision tree to assess climate change risk



Carbon credits
Carbon markets may provide potential savings for companies whose products can result in greenhouse gas reductions. Under the Clean Development Mechanism (CDM), countries can meet emissions reductions targets by trading credits. These credits are called Certified Emissions Reductions (CERs).

The guidance material
The material produced for CDC by Forum for the Future provides five tools to enable the risks of greenhouse gas emissions (GHG) to be determined, monitored and effectively reported. By following analyses of this type, fund managers will be able to assess and implement suitable reduction targets.

Tool One: Questions for fund managers to ask of investee companies – This is designed to help fund managers consider the risks and opportunities that may impact on a particular company as a result of climate change. It also considers whether a company should report to investors on the nature of applicable climate change risks.

Tool Two: Monitoring and reporting – This provides an illustration of how a fund manager can report the risks of climate change to CDC. It also suggests further tools a fund manager can use to calculate a company's emissions in tonnes of carbon per year. Above 100,000 tonnes carbon dioxide equivalent is to be regarded as high and should be closely monitored. CDC recognises the value of the Carbon Disclosure Project (CDP) reporting standards in conjunction with International Standards Organisation (ISO) 14064/5 series for assessing tonnes of carbon produced per year.

Tool Three: Sector risks and opportunities – Whilst all sectors are at risk from climate change, some sectors are more vulnerable than others. Moreover, different opportunities for business development exist in different industry sectors. This tool discusses and categorises each industry sector by the type of dangers and opportunities arising in each.

Tool 4: Assessing location risk and opportunity – Similarly to industry groups, different regions and countries will also be affected by climate change in different ways. This tool guides a fund manager in thinking through the potential impacts of geography on both the company as well as its supply chain.

Tool 5: Creating opportunities through the carbon market – This tool attempts to demystify the carbon market and present fund managers with an idea of how the carbon market works and how to seek funding.

The guidance document produced for CDC aims to raise relevant issues related to climate change and advise on how the investment industry should react. The full text is available on CDC's website.

Next steps
In 2010, CDC will work with its fund managers and assess which portfolio companies are likely to be those producing more than 100,000 tonnes in carbon equivalent emissions per annum. Having identified high risk investments, CDC will help fund managers begin to reduce carbon emissions in portfolio companies.

CDC will also increase awareness of new business opportunities that might result from climate change and assist fund managers where possible with opportunities presented by the carbon market.

Dalmia Cement, India

Energy efficiency delivers emissions and cost savings for Dalmia Cement, India

India is the second largest producer of cement in the world (after China). Cement production is an energy intensive process, contributing 5% to total global greenhouse gas emissions. The cement sector in China and India is growing rapidly and greenhouse gas emissions from the sector are predicted to rise.

Dalmia Cement is a leading cement producer in South India, with a current capacity of 6.5 million tonnes of cement per year. In order to drive down emissions from its operations Dalmia has worked to improve the energy efficiency of its production processes:

- In 2009, their Dalmiapuram unit has become self reliant in power, with 25% of the energy (16.5 MW) supplied by a wind farm;
- Across their operations Dalmia has reduced power consumption per tonne of cement;
- Increasing the percentage of fly ash used in manufacturing decreases limestone calcinations, so reducing process emissions.

These initiatives have led to lower costs, whilst making Dalmia one of the cleanest cement producers in India, when measured by emissions per tonne of production. Dalmia was the recipient of the Greentech Environmental Excellence Award in 2008 in recognition of these achievements.

Coal mining is a heavy carbon emitter

Songas – a CDC-backed gas power station in Tanzania

Electricity transmission

Initiatives taken in 2009 continued

"We take another step towards globalising social progress when we champion gender equality as a matter of rights and social justice, as well as efficiency and good business sense."

Juan Somavía, International Labour Organization (ILO) Director-General

Gender equality

The need for change
CDC recognises that most of the poorest people in the world are women, in part because of the gender discrimination they face. Women in developing countries are disproportionately under-presented in formal employment. When employed, women often get paid less for the same jobs compared to men. Frequently, women's wages go directly to a husband or father.

Available data shows an increasing feminisation of poverty.[36] Women earn one third less than men with the average wage gap in 2008 being 17%. Eight out of ten women workers are considered to be in vulnerable employment in sub-Saharan Africa and South Asia.[37]

A few country specific examples can further illustrate some of the difficulties women face. In South Africa, women face major barriers in accessing finance – after two years of operation, only 5% of clients of a black economic empowerment equity fund of a major bank in South Africa were women. In Uganda, women control only 9% of the available credit, declining to 1% in rural areas. In Bangladesh, women remain marginalised in the formal banking sector – their share of the formal credit market is a meagre 1.8%.

DFI collaboration in commissioning of gender study
It is recognised that best practice guidelines on gender issues in the emerging markets are underdeveloped. This presented CDC with an opportunity to gain a clearer understanding of gender issues across CDC's portfolio and also to act as an industry leader in providing best practice guidelines to direct investors and fund managers. CDC therefore decided to conduct a gender study jointly with other Development Finance Institutions (DFIs) to establish practical guidelines to inform investors in the emerging markets. A parallel objective was to establish a practical tool to inform portfolio companies of measures that could be taken to improve their gender as well as business performance.

FMO (the Dutch DFI), the International Finance Corporation (IFC), Norfund (the Norwegian DFI) and CDC jointly commissioned the study and awarded the contract to a gender specialist consultancy firm, Gender at Work. The study involved a large number of interviews with fund managers in the DFIs' respective portfolios as well as with portfolio companies in which the DFIs were invested. The end result comprised a set of best practice guidelines and policies that portfolio companies can implement in the workplace and in their supply chains.

Gender study key findings
No one gender equality policy blueprint will fit all companies and projects. The size of the company and the sector in which it operates will determine to a large extent what kinds of gender equality considerations would be applicable.

Local cultural contexts and practices and national legislative frameworks show significant differences. For example, in Indonesia, women have traditionally dominated the small informal business sector. In Tanzania, clerical or administrative positions are more typical. This shapes what gender equality considerations can be easily supported and promoted and what issues will be harder to tackle. While women are employed across a wide range of companies and sectors only very few of these have an explicit gender policy and do not gather any gender related data or information beyond the number of women and men employed.

The business case for gender equality
Empirical studies have demonstrated that gender equality and equal opportunity make sound economic sense. The recent Global Reporting Initiative/IFC report shows that many investors believe that women's empowerment is a key characteristic of well-managed, forward-thinking companies that are capable of creating sustainable shareholder value over the long term.[38]

In addition, a positive correlation appears to exist between gender equality practices and company performance. There is evidence that having women in executive positions and on the board can indeed

Gender equality considerations in projects and portfolio companies (condensed example)

	Governance	Workplace	Supply chain	Social and Environmental Impact Assessment
Maximum	Gender equality is company Key Performance Indicator	Recruitment of women for non-traditional jobs	Company outsources to women's enterprises (>30% women owned)	Company hires outside gender risk assessment specialist
Medium	Appointed gender equality representative	Recruitment panels include men and women	Procurement policies and procedures are gender-sensitive	Company identifies, avoids, reduces and mitigates gender risks
Minimum	Company obeys relevant national laws	Company obeys relevant national laws	Company obeys relevant national laws	Company obeys relevant national laws
Unsatisfactory	No company position on gender equality policies and procedures	Violation of national legislation or the ILO core labour standards	Violation of national legislation or the ILO core labour standards	No identification of gender related risks
Detrimental	Company violates national legislation, with impact on female workforce	Forced overtime, sexual coercion, physical abuse of women	Forced overtime, sexual coercion, physical abuse of women	Encouragement of sex workers by staff/contractors
To be excluded	Repressive political, social or cultural norms towards women	Forced female labour; widespread sexual coercion	Forced female labour; widespread sexual coercion	Encouragement of trade in sex workers by staff/contractors

contribute to stronger financial performance and that the better a company is at promoting women, the better it tends to rank in terms of profitability.[39]

Complete gender equality in the workplace is an ideal that is difficult to attain in most industries in emerging markets. Microfinance, for instance, specifically targets female run small businesses. Heavy industry by contrast typically employs a largely male workforce and it is unrealistic to imagine that this situation can or should change. However, it remains possible to reach gender positive outcomes in which women can obtain greater opportunities on corporate boards and across a company's supply chain and operations.

Implications for CDC and next steps

As a result of the study and its findings CDC identified several opportunities to improve gender positive outcomes in its portfolio. CDC's revised Toolkit for Fund Managers will contain a section with gender policy guidelines for portfolio companies across their supply chains, workplace environments and corporate governance structures.

This comprehensive set of sound and easily implementable principles and tools covers matters such as board diversity and gender equality in the workplace, gender-responsive social and environmental sustainability policies. It also illustrates how to ensure broad gender inclusive supply chains thereby raising competition and ultimately rewarding female entrepreneurs and portfolio companies alike.

Fund manager training sessions will build on the Toolkit and include modules on gender positive outcomes and ways in which such opportunities and challenges can be addressed. The training will thereby complement and build a more practical understanding of ways in which fund managers can capture gender related opportunities in their companies.

Lastly, CDC maintains dialogue with its fund managers to identify where ESG training sessions would be valuable. Gender risks and opportunities will now be included in this assessment including reputational risks, risks related to attracting and retaining talent, risks related to innovation and the impact of their investments in communities. This will inform and direct CDC's training efforts toward those fund managers and portfolio companies where it can make the greatest difference.

"Gender equality exists when both women and men are able to share equally in the distribution of power and influence; have equal opportunities, rights and obligations in the public and private spheres, including in terms of work or income-generation; have equal access to quality education and capacity-building opportunities; have equal possibility to develop their full potential; have equal access to resources and services within families, communities and society at large; and are treated equally in laws and policies. It does not mean that women and men are the same, but that their rights, responsibilities and opportunities do not depend on their sex."

UNDP Gender Guidance for National Aids Responses[40]

Female and male workers in a textile manufacturing business

Female workers in a Ghanaian SME

Initiatives taken in 2009 continued

Updated CDC Toolkit for fund managers

In 2009, CDC commissioned the consulting firm Rosencrantz & Co to update its Toolkit for fund managers. The document builds upon CDC's previous Toolkit and advises fund managers of how sound ESG policies can add value to their investments. These improvements can be realised in a number of forms, not least cost savings, product innovation, effective brand management, new market access as well as how best to manage ESG risks.

The Toolkit takes fund managers through how ESG is best addressed at all stages of the investment process. It discusses how to assess an investment for environmental risk, dangers relating to labour rights and health and safety as well as governance risks. The Toolkit goes on to examine how to produce an action plan for ESG improvements and illustrates how best to report for investors such as CDC.

The new Toolkit makes a number of updates and improvements to its predecessor. In particular these include:

- the business case for ESG including cost savings, effective brand management and gaining access to new markets in more detail and illustrating this with case studies from CDC's portfolio;
- the business case for ESG including risk management, cost savings, brand enhancement and access to new markets;
- elements of good corporate governance;
- more extensive guidance on good corporate governance and ESG management systems for fund managers as well as for portfolio companies;
- more detailed due diligence questions that can be asked for each ESG area;
- more detailed definitions of risk ratings for each area of ESG and how these should be awarded;
- guidance on appropriate monitoring and reporting;
- sector specific due diligence check-lists for fund managers that invest in high risk sectors including agribusiness, energy and utilities, infrastructure, industrials and mining;
- brief guidance on ESG matters for different types of fund including debt funds, small and medium sized enterprises (SMEs) funds and microfinance;
- guidance on relevant international ESG standards and conventions and maps showing where they do not apply. This is intended to increase awareness of the risks in such countries; and
- sections with guidance on climate change related matters and gender. This material builds upon the results of CDC's Climate Change and Gender Studies, previously discussed in this chapter.

The document also gives guidance to the international conventions of most relevance to fund managers, including the IFC performance standards, ILO conventions and corporate governance standards.

The full Toolkit will be placed on CDC's website and CDC will be following a programme of educating fund managers in 2010. This is a good example of the value CDC can add to the investment process and to its fund managers.

CDC's updated Toolkit for fund managers: ESG management systems for private equity fund managers

Initial screening > Due diligence > Investment decision > Investment agreement > Investment monitoring > Exit

		Tools
Initial screening	> Investment proposition in line with ESG policies, guidelines and exclusions? > See CDC's Investment Code on ESG	> ESG policies > International standards
Due diligence	> Assess new investment from ESG perspectives > ESG risk ratings and quality of management systems	> Risk ratings > Management systems
Investment decision	> Investment paper to address key ESG matters > Action plan for improvements with timeline and cost estimates	> Investment paper > Action plan
Investment agreement	> Agree on ESG action plan with investee management > Include ESG clauses in legal agreements	> Clauses for investment agreement
Investment monitoring	> Check compliance and monitor progress > Report to Board and investors > Publicise sound ESG management through annual reports and website	> Monitoring > Reporting
Exit	> Consider ESG developments under new ownership > Review investment strategy in light of changing regulations, markets, technology	> Exit guidance

Appendices with specific guidance

- > **Industry sectors** – Guidance for high ESG risks
- > **SMEs** – For smaller companies, costly ESG improvements have to be carefully prioritised
- > **Debt** – Lenders can screen borrowers on ESG criteria. Equator Principles reference standard
- > **Microfinance** – Apply relevant exclusion list and monitor women borrowers, repayments, etc.
- > **Standards** – International reference standards and conventions on ESG
- > **Templates** – Reporting templates and examples
- > **Business case** – the business case for ESG
- > **Climate Change** – Risks and opportunities (carbon finance, etc.) should be carefully considered
- > **Gender** – Non-discrimination and sound maternity policies are a win-win for businesses and women

External perspectives

Chapter 6

External perspectives on CDC's systems, processes and performance are of great importance to CDC. Independent parties are a source of objectivity, validation and constructive criticism. In 2009, CDC committed itself for the first time to an external audit of its processes for implementing the Investment Code. Furthermore, seven out of the 20 fund evaluations in 2009 were undertaken by an external third party.

This chapter presents independently written statements from these two external parties and also discusses a complementary approach to measuring the development impact of CDC's investments.

Chapter 6: External perspectives

In 2009, CDC employed a specialist consultancy firm to perform seven of the 20 fund development impact evaluations and to provide an external perspective on CDC's evaluation process. The value added by external consultants and how this has complemented CDC's own monitoring and evaluation work is discussed in the pages that follow.

Independent evaluations

The added value of an external perspective

In 2009, seven of the 20 development impact evaluations were outsourced to external consultants in order to enhance the evaluation process. Following a competitive tender process, CDC chose Triple Value Strategy Consulting (Triple Value) for this process. The firm is experienced in performing evaluations in developing markets and works closely with Professor Ethan Kapstein of INSEAD.

The rationale for using independent external evaluators was to lend greater objectivity and transparency to the evaluation process. This is an approach in line with international best practice amongst companies seeking to understand the development effects of investment in developing economies. The IFC's Independent Evaluation Group suggests that approximately half of the total number of evaluations of development impact should be outsourced to an external evaluator. Following this precedent, from 2010, approximately half of CDC's evaluations will be outsourced.

In order that the evaluations were performed in a manner consistent with CDC's own evaluations, the external evaluator applied CDC's own methodology and template to the evaluations which they performed. They applied their own econometric input/output model on four of CDC's funds to understand better the wider and less direct effects of CDC's investments. An analysis of this process and the light it throws on the development impact of CDC's investments is discussed later in this section.

Triple Value has also contributed to this report by suggesting enhancements to CDC's monitoring and evaluation process. Their perspective is presented later in this chapter.

The challenge of measuring development impact

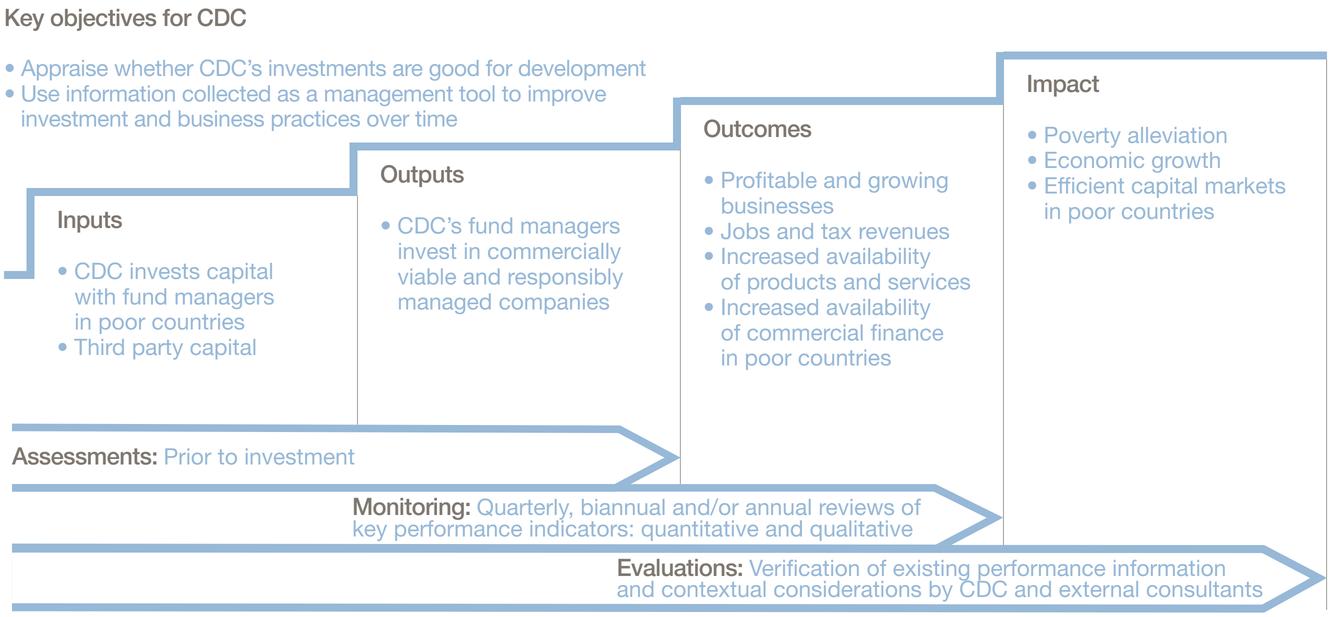
As an intermediated investor, CDC has to be realistic about what data it can gather annually from underlying portfolio companies. Each year, CDC requests its fund managers to provide economic data for each portfolio company and an ESG report that explores the environmental, social and governance risks particular to that company. In addition, CDC expects serious incidents such as a fatality at a portfolio company, major fraud or an event with severe environmental consequences to be reported to CDC as soon as they are discovered. This is part of CDC's monitoring as illustrated by the diagram below.

Fund evaluations, however, capture the development effects of CDC's investments over a longer period of time. Since CDC's prime role is to drive development, measurement of longer term development impact is crucial. Moreover, evaluations of this sort are better able to allow comparisons into the impact of CDC's capital across a spectrum of sectors and regions. Evaluations can also impact upon how CDC thinks about its strategy and future in terms of markets, risks, returns and development impact.

Evaluations therefore serve as the link between the monitoring data that is collected annually and more qualitative judgements about the longer term impact of CDC's investment.

Moreover, the understanding which CDC seeks from its evaluations includes the extent to which CDC's capital contributed to poverty alleviation and macro-economic growth. An understanding of this sort requires clearer focus upon the nature of the fund than is possible from the data provided by typical annual monitoring reports.

CDC's monitoring and evaluation system captures development effects over time



An external perspective on measurement of CDC's development impact

TRIPLE VALUE
STRATEGY CONSULTING

An external party, Triple Value has evaluated the performance of seven funds and also added a new component: an assessment of the socio-economic impact of a fund.

Triple Value: Our insights into CDC's evaluation process

Triple Value's work for CDC

In 2009, Triple Value evaluated the performance of seven funds on behalf of CDC. Four evaluations concerned mid-term evaluations of African funds while three evaluations were final evaluations of Asian funds. As described earlier in this report, our evaluation approach consisted of a combination of CDC's evaluation methodology and Triple Value's Socio-Economic Impact Assessment (SEIA) model.

Each fund evaluation was based on an analysis of relevant information and documents and a judgement of a fund's performance. Subsequently, interviews were conducted with people involved in the fund (including CDC staff, fund managers and representatives of portfolio companies). In addition, site visits to local fund management offices and portfolio companies were organised.

In total, Triple Value visited eight fund management offices and 14 portfolio companies in six African countries. As almost all Asian investments had been exited a long time ago, no visits were made in Asia. These evaluations were completed based on desk research and in-depth interviews with fund management and CDC staff.

The value add of an external view

The purpose of an external evaluation exercise is threefold.

Firstly, it provides an external judgement of a fund's performance and thus enhances the independence of the evaluation. Secondly, it tests the effectiveness and robustness of CDC's evaluation methodology. And thirdly, external evaluations enable CDC to compare the results with those of internally performed evaluations and judges whether these suffer from internal bias.

Main findings

Out of the seven funds evaluated by Triple Value, six were considered to have a satisfactory or better development outcome. And CDC's effectiveness was rated at least satisfactory for all seven funds.

As the ratings of the 13 internal evaluations show very similar ratios (85% of funds have a satisfactory or better development outcome and 100% rate CDC's effectiveness as more than satisfactory), this suggests that CDC's evaluation methodology serves as a framework to assess a fund's performance in an objective way.

While working with CDC's methodology, we found that it is a thorough approach to perform an evaluation. Naturally, we also came across some aspects where we think that the methodology needs to be modified or sharpened and CDC is currently working on this.

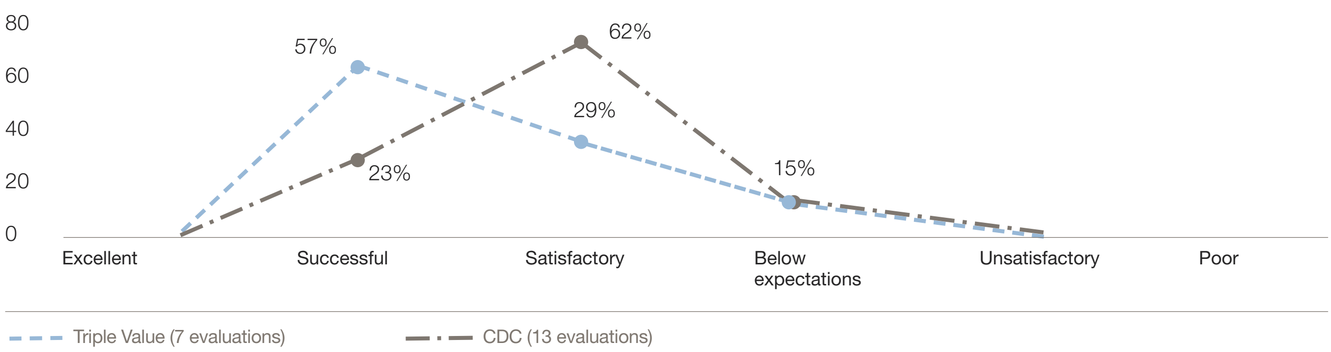
Conclusion

We think that external evaluations contribute to a transparent and accountable fund evaluation process. By producing external evaluations side by side with those produced internally, a strong combination is built based on in-depth knowledge of the fund's details and an outside perspective on fund performance and CDC investment decisions. The assessment of the wider socio-economic impact of a fund provides information on the development impact of supply chains that was not previously available, although it does not include all aspects of development.

Compared to CDC staff who live with the funds every day, for external evaluators it can be a challenge to acquire sufficient knowledge of a fund's details in order to form a robust opinion on its performance. However, by working closely with CDC staff and fund managers this issue is substantially alleviated. Moreover, starting with a completely fresh mind has the advantage that new insights can be identified. Evaluating CDC's own effectiveness is naturally more objectively done by an outsider.

Given the different character and dynamics of internal and external evaluations and the strong combination they make towards an overall evaluation approach, we agree with CDC that outsourcing approximately half of its fund evaluations contributes to a strong approach.

Comparison of evaluation ratings: CDC compared to Triple Value (Development outcome – % distribution)



External perspectives continued

Other approaches to assessing and quantifying development impact

The measurement of development impact is an evolving science. CDC strives to be an early adopter of new techniques. One approach that was tried for the first time in 2009 is the Socio-Economic Impact Assessment (SEIA) model.

CDC's assessment of development impact

CDC's evaluation methodology tends to give rather qualitative outputs particularly in relation to the 'private sector development' and 'added value' dimensions of the assessment. CDC is therefore keen to explore more quantitative approaches. Even more important is to get a better understanding of the indirect impact of CDC's investments and trickle down effects into the rest of the economy.

An overview of the SEIA model

The SEIA model is designed to estimate the full development impact of investment in a particular company on the entire economy. The model does this by estimating the effects outside the company itself in terms of number of jobs created, salaries paid and amount of taxes paid elsewhere in the economy as a result of the investment in the investee company. The main outputs of the model are estimates of:

- direct, indirect and (household) induced economic activity (economic multipliers);
- direct, indirect and induced incomes or value added generated (taxes, salaries); and
- direct, indirect and induced jobs created (job multipliers).

Direct, indirect and induced impact

Direct impact refers to the profits, taxes and jobs created directly in the portfolio companies. Indirect impact is the backward link to profits, taxes and jobs generated by the portfolio companies' suppliers. It is important to note that this is only backward linking. Forward linkages to wholesale and retail trade sectors are not captured by this approach, but may be significant. Induced impact includes the profits, taxes and jobs created when employees go out and spend their increased incomes on consumer goods and services.

The four steps of applying the SEIA model

The SEIA model builds on input-output tables (I/O tables). These tables summarise financial transfers of an entire country's economy between stakeholders through which inputs (consumption) are converted into outputs (incomes). The I/O tables are constructed for each country or region and are based on data in the international Global Trade Analysis Project (GTAP) database that covers 57 economic sectors.

The second step after the I/O tables have been constructed is to map the turnover of all the portfolio companies onto the appropriate economic sector. Doing so illustrates how the company turnover is re-spent throughout the economy. Each round of re-spending delivers incomes to households (in the form of salaries), companies (in the form of profits) and government (in the form of taxes).

The third step is to translate these economic outputs into number of jobs created in the economy by using employment data from the various countries or regions. For reasons of comparison, all employment results are finally scaled back to represent only formal employment. This is a very conservative approach, given that most employment in developing countries is in the informal sector.

Finally, the turnover re-spending, tax revenue figures and number of jobs created are aggregated from the different regions to estimate the overall impact of the investment on the larger economy.

CDC funds and the SEIA model

Fund One illustrated in the below table is a large pan-African fund managed by an experienced fund manager. The SEIA model indicates that for each US$1 in salaries, profits and taxes the economy derives an additional US$2.6 (the total value added multiplier). Also, for each employee in this fund's portfolio companies an additional 5.3 jobs are supported in the economy as a whole.

The SEIA model has been applied to three other CDC fund evaluations in 2009. This provides an opportunity for comparison of development impact and multipliers across different types of funds, geographies and sectors:

Fund Two is another relatively large pan-African fund with an experienced fund manager. It concentrates on larger companies in low-income countries through which broad-based economic development has been achieved.

Fund Three is a smaller South Asian fund with a very experienced fund manager. It is almost entirely focused on low income countries and close to half the portfolio companies are small and medium sized enterprises (SMEs).

Fund Four is a very small African SME fund with a very large number of companies managed by an experienced fund manager.

Example: Development impact measures of a fund using the SEIA model

Type of impact	Household income	Profits and savings	Tax revenues	Total value added	Formal employment
Direct	US$70m	US$21m	US$49m	US$140m	2,971
Indirect	US$58m	US$19m	US$34m	US$111m	7,823
Induced	US$57m	US$20m	US$33m	US$110m	5,507
Total	US$185m	US$60m	US$116m	US$361m	15,851
Multiplier	2.6	2.9	2.4	2.6	5.3

Comparison of results

It is important to bear in mind that a small sample of funds like the one used in this example can give only indicative results. Nevertheless a discussion and comparison of the results can be useful to generate hypotheses and questions for further investigation.

The graph below shows the multipliers for each of the four funds under four impact measures – household income, profits and savings, tax revenues and formal employment. Immediately apparent are the differences in multipliers for the four funds across household income, profits and jobs. The tax revenue multipliers display more consistency across the four funds.

Household income

Fund Three has the lowest multiplier effect and is concentrated in the telecoms and capital goods sectors in South Asia. Fund One has the highest multiplier of the four funds and contrasts greatly with Fund Three in that it is mostly invested in the mining, financial and energy sectors in Africa. One explanation for this difference could be the rural versus urban setting of the various sectors. Mining and energy investments are generally located in more rural settings where other job opportunities are scarce and most of the income generated will be spent locally. This is likely to give rise to a strong multiplier while the telecoms and capital goods sectors are mostly located in urban areas where there might be more job options available and possibly also a lower multiplier.

Profits and savings

While Fund Three comes out with the lowest multiplier also on this dimension Fund Two exhibits the highest multiplier. Similar to Fund One it is an African fund, but it differs in that it is heavily invested in the financial services, metals and energy sectors. A partial explanation for this difference might stem from how the model treats forward linkages. The telecoms and capital goods sectors in Fund Three have a stronger forward linkage to wholesale and retail trades than the sectors represented by Fund One. The model, however, does not capture these effects which may result in a lower multiplier in this example.

Formal employment and comparisons with informal jobs

Fund One stands out from the rest on this dimension. The three other funds are comparable in performance. However, there is no significant difference between Fund One and the other funds In terms of sector focus, company size or size of funds.

The key difference between Fund One and the other funds is in its stronger presence in middle-income countries. This might be an important explanatory factor as the multiplier effects might be higher in these environments because of stronger linkages between markets and sectors.

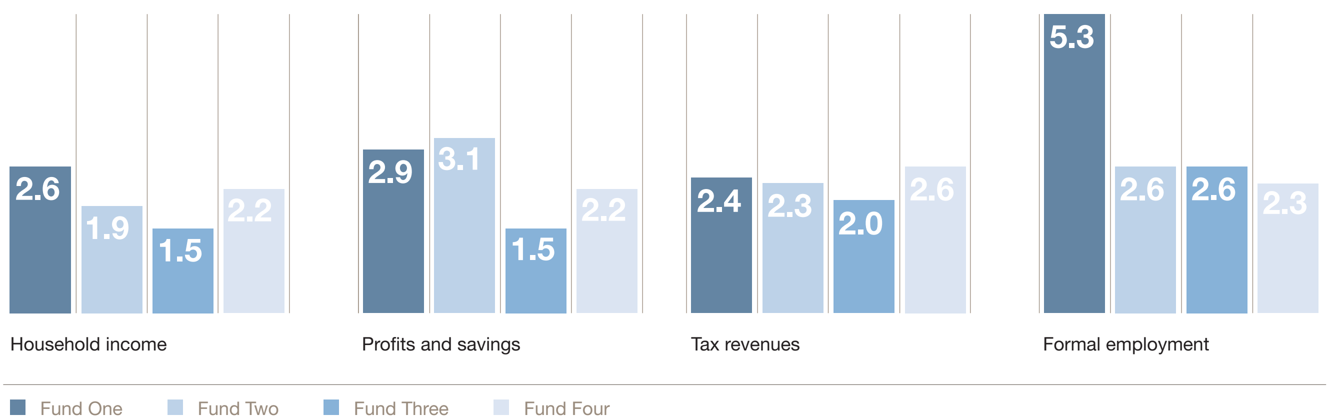
Overall conclusions

The results in the table below are only indicative and involve many assumptions as discussed on the previous page. They do, however, provide an insight into the less visible economic effects of the fund on the wider economy.

Although the results cannot be comprehensively benchmarked against other funds, this may be possible in future years as this approach is further developed and applied to more funds in CDC's portfolio. It might at that point be possible to draw more general conclusions to inform CDC's thinking on how it can best support development in emerging markets.

Lastly, the SEIA model is but one approach to measuring development impact. There are other approaches that could be equally or more insightful. CDC remains open to learning about and exploring any such options.

Development impact of four CDC funds using the SEIA model, illustrating multiplier effect



External perspectives continued

Brookside Dairy, Kenya

Integration of poor communities through an innovative sourcing and distribution network

Kenya is a low income East African nation whose GDP per capita was around US$810 in 2008. 20% of Kenya's population live below the US$1.25 a day poverty line and in areas with little access to basic services and supplies, something often taken for granted in more developed economies. The majority of Kenyans live in rural areas that are often isolated and have little chance to sell their produce to national suppliers. Brookside Dairy, through its sourcing and distribution network, has made a substantial contribution to addressing both of these problems in Kenya's dairy industry.

Aureos first invested US$1.2m in Brookside in 1998 through the Acacia Fund to expand Brookside's capacity and help the business diversify into the production of dairy products such as yoghurt and butter. The investment was successful and yielded a 21% Internal Rate of Return (IRR) to the fund manager.

Amongst Brookside's various contributions to the Kenyan dairy sector, three factors in particular stand out. First and most impressive has been Brookside's ability to integrate rural economies into its sourcing and supply network. In 2004, Brookside's milk was sourced from approximately 65,000 farmers, most of whom were neither commercial farmers nor members of farming co-operatives. The company's catchment area in Kenya now ranges across the country from the Eastern Province to the Central Province and the Rift Valley. Company policy ensures that all milk collected is tested for quality and reaches the dairy within three hours of milking. As a result, up to 150,000 Kenyans are now included in Brookside's value chain as farmers, suppliers, transporters, retailers or distributors.

Secondly, Brookside's distribution network shows similar innovation. The company includes local kiosks to sell milk in addition to traditional retail outlets such as supermarkets, mini markets and general stores. Kiosks are mostly located in remote regions or areas previously underserved by traditional retailers. For example, many of the 18,000 kiosks throughout Nairobi are located within the city's slums.

Thirdly, Brookside has been able to train farmers in dairy methodology and increase their ability to support themselves. The company has put farmers in touch with local and international dairy experts to facilitate the diffusion of new practices and techniques into their supply base, allowing for greater efficiency and larger milk yields. In addition, Brookside has provided access to credit facilities that have enabled farmers to buy new equipment as well as semen to improve the genetic base of their livestock. To complement this, Brookside has sponsored a breeders show and sale which is now one of the major dates on Kenya's agricultural calendar.

Brookside Dairy has also demonstrated considerable leadership through its Environment, Social and Governance (ESG) initiatives. The company has successfully initiated local tree-planting programmes and improved wastewater management within local communities. It has also invested in an educational campaign focused on nutrition and the benefits of milk for a balanced diet. In addition, Brookside has funded the construction of schools and the maintenance of local roads. Through such initiatives the company seeks to maintain its image and increase awareness of its products.

Brookside's management systems have gained the internationally-recognised ISO 9000 certification and the company has worked broadly with Kenyan authorities to establish new environmental standards for the national dairy industry. It has also enabled an international expansion. Brookside now has fully-fledged operations in Tanzania and Uganda and exports as far afield as the Middle East.

Brookside's success and proven ability to expand has prompted Aureos to make a further investment of more than US$18m through its current Africa Fund. This additional capital has helped Brookside to acquire Spinknit dairy and thus create Kenya's largest dairy company in terms of milk intake volume and profitability. Aureos' continuing belief in Brookside is testament to how the company has continued to grow and also implement ever more sophisticated ESG policies.

Key data

Investment:[1]	US$1.2m
Investment period:	1998-2006
Sector:	Agribusiness – Agroprocessing
Fund manager:	Aureos
Employment:[2]	2,500
IRR:	21%

1 US$1.2m was invested by Aureos. CDC's investment in Aureos Acacia Fund was US$5.1m; total fund size was US$19.1m.
2 2009.

Part of the manufacturing process

Livestock parade at Brookside Dairy

East Africa Gold Mines (EAGM), Tanzania

Establishing the Tanzanian gold industry

Today, Tanzania is Africa's third largest gold producer. This represents spectacular growth since 1999 when Tanzania had only a minimal amount of gold production. In 2007 gold exports totalled US$763m and the gold mining industry has become recognised as of immense value to the Tanzanian government and to local regions. EAGM was a pioneering mine in the North Mara region of the country which contributed significantly to the development of the Tanzanian mining industry.

African Lion, CDC's fund manager, invested in EAGM in 1999, just as the country was opening up to foreign miners. The Lion team was instrumental in establishing EAGM's operations. The North Mara mine was developed substantially between 1999 and 2003 with discoveries made of as much as 2.1 million ounces of gold reserves. The number employed at the mine increased by 385 over the period. To date, the mine has generated an estimated US$29m in taxes and royalties for the Tanzanian government.

To complement the mine's economic successes, EAGM's Managing Director Geoff Stewart was rigorous in implementing best practice in all areas of ESG at the company. In addition to resolving a tenure dispute with local artisanal miners, EAGM assisted with the construction of local schools, hospitals and infrastructure. Stewart also took the lead role in managing a resettlement programme which was necessary for the site's future development. Stewart's handling of the social impact of EAGM's operations was universally considered to be of a high standard. In recognition of his efforts, Stewart was made an honorary local chieftain by the community.

The future of the mining site remains positive, with gold resources being as great as four million ounces. If production at the site increases, the mining activity will generate further income for the Tanzanian government. Furthermore, with its strong record of successful ESG management, EAGM has set a benchmark for responsible foreign-backed investment in Tanzanian natural resources.

Key data

Investment:[1] US$5.3m
Investment period: 1999-2003
Sector: Gold mining
Fund manager: African Lion
Employment:[2] 400
Employment growth:[3] 385
Turnover growth:[2] >US$200m
Amount of proven resource: 4 million ounces gold
Capital raised: US$110m
Taxes to present: US$29m

1 US$5.3m was invested by African Lion, CDC's investment in African Lion is US$9m; total fund size is US$33.8m.
2 2003.
3 1999-2003.

Site overview of EAGM

The crushing facilities

External perspectives continued

Audit of CDC's processes to implement its Investment Code on ESG

Background

Through its Investment Code, CDC promotes responsible business practices with respect to the environment, social matters and governance (ESG) in its investments through financial intermediaries in poor countries. CDC uses the Investment Code at all stages of its investment process to work with fund managers in the application of responsible investment practices on ESG.

CDC uses an intermediated investment model, investing in funds, primarily private equity funds managed by third parties. The fund managers typically have local offices in emerging markets, where investments in local portfolio companies are made. This approach to development finance has a number of advantages:

- CDC's investments in funds encourages investment from third parties, often commercial institutional investors;
- CDC supports the emergence of new fund managers in emerging markets and in this way promotes more effective capital markets and local capacity building for responsible investment and responsible business practices;
- CDC benefits from local knowledge and experience in the identification and management of investment opportunities; and
- CDC's limited resources are leveraged and can impact a much higher number of people than would be possible using a direct investment model.

For the purpose of establishing processes to implement the Investment Code with fund managers and portfolio companies, the intermediated model poses certain significant challenges:

- we require our fund managers to operate in line with an investment code, which is identical or is substantially similar to CDC's Investment Code. The fund managers are in turn generally responsible for ensuring that their portfolio companies adhere to responsible business principles and practices. Through the intermediated investment model, CDC is one step removed from portfolio companies and has limited ability to control what happens on an ongoing basis. CDC accordingly is not in a position to check compliance with all standards at portfolio companies but relies on its fund managers to do so; and
- CDC's fund managers in turn may not always be in a position to exercise control or significant influence over their portfolio companies.

It therefore follows that CDC's process to implement the Investment Code must take into account the different roles that each agent plays in the intermediated model. CDC's role is to establish the Investment Code and perform thorough due diligence checks to assess whether potential fund managers are committed to implementing the Investment Code. CDC also provides training and support to fund managers on how to implement sound ESG management systems and encourages them to work towards continuous improvements as set out in the Investment Code.

CDC aims to have a seat on the advisory or governance boards of the funds in which it invests and be an active participant, ensuring ESG receives senior support as appropriate. CDC also carries out monitoring and evaluation procedures to gather information on the implementation of the Investment Code. This can be fed into dialogue with fund managers on necessary improvements as well as future funding decision making. The fund managers' role is to adopt the Investment Code and implement it in their own investment activities. They have a responsibility to educate the management of portfolio companies about the Investment Code and encourage them in turn to implement it. The fund managers also commit to reporting procedures to CDC. Finally, where the fund manager has significant influence, the management of portfolio companies themselves adopt either the Investment Code or an alternative but substantially similar code and are responsible for implementing ESG improvements and managing ESG risks. CDC's processes for implementing the Investment Code have been put in place in this context to create effective communication and management of roles and responsibilities in this intermediated investment model.

The process to implement the Investment Code

CDC's process for implementation of the Investment Code is embedded in the investment cycle.

- **Due diligence** on the ESG management capability of fund managers in the context of the inherent ESG risks of their investment strategies;

Exhibit 1: Implementation process for CDC's investment code

	Due diligence	Investment	Investment monitoring and mid-point evaluations	Final evaluations
Key information	• Quality of fund manager's ESG management systems • Risk level of sectors covered by fund manager's investment strategy • If follow-up fund, ESG performance of existing portfolio companies	• Investment agreement with fund manager: CDC's standard side letter or other equivalent satisfactory legal agreement	• Annual ESG reports • Mid-point evaluations • Case studies • Any serious issues involving portfolio companies: loss of life, material effect on the environment or material breach of law	• Final evaluation report
Responsible Support	Portfolio director → Investment team, ESG manager, ESG & Monitoring and Evaluation (M&E) advisor, legal counsel, finance team →			
Sign-off	• Post due diligence report: ESG manager • Investment paper: Investment Committee (IC) followed by Board, if appropriate	• If fund manager proposes a different investment agreement from CDC's standard Side Letter: ESG manager and legal counsel to agree it is of equivalent standard	• Monitoring reports: > ESG manager > IC • Serious issues: > ESG manager and legal counsel > Chief Operating Officer > Board • Case studies: > ESG manager > Communications director	• Same procedure as for mid-point evaluation reports

- **Investment**, whereby CDC's Investment Committee and/or Board sign off that the investment is appropriate from an ESG perspective, and the fund managers commit to applying the Investment Code;
- **Investment monitoring and mid-point evaluations** which create a cycle of reporting, investigation and review throughout CDC's period of investment to improve performance and encourage compliance and corrective actions, as well as inform new funding decisions to existing fund managers; and
- **Final evaluations** which allow all lessons to be captured and used to inform future funding decisions and to improve performance and encourage compliance and corrective actions.

Stage 1: Due diligence

As part of the due diligence work for all new investments, CDC assesses the ability and willingness of fund managers to implement responsible business practices in their portfolio companies. To demonstrate this, fund managers are expected to have or to institute ESG management systems as described in section 4 of the Investment Code (see Appendix 1).

CDC has an ESG Toolkit for Fund Managers which is used by CDC's investment teams during due diligence. This includes, for example questions to assess the ESG management systems of fund managers. If other DFIs are also investing with a fund manager, CDC coordinates its due diligence on ESG matters with them.

Where CDC already has an investment relationship with a fund manager, CDC's due diligence for investments in a successor fund is informed by how well the fund manager has implemented CDC's Investment Code for existing investments. If the fund manager already has portfolio companies in high-risk sectors, CDC's due diligence includes a visit to a sample of these companies to assess how the fund manager's ESG management systems have worked in practice. CDC's ESG Manager supports the investment team on due diligence of fund managers that plan to invest in high risk sectors.

CDC produces a post-due diligence report which identifies any shortcomings in the fund manager's ESG management systems and recommends improvements.

The ESG Manager signs off the relevant sections of the post-due diligence report before this report is included in the Board investment paper in the cases where Board approval is required. The Investment Committee signs-off on the Board investment paper before this paper is transmitted for approval by the Board.

Stage 2: Investment

As part of the investment agreement or side letter with CDC, fund managers are required to commit to an investment code identical or substantially similar to CDC's Investment Code (see Appendix 1). This includes a commitment to employ management systems which effectively identify and address ESG risks in portfolio companies and to work with portfolio companies to manage such risks and bring about improvements in business practices. Fund managers are also required to commit to reporting annually to CDC on ESG matters.

CDC may occasionally commit to a fund at a later stage than other Development Finance Institutions (DFIs) by which time the fund may have developed its own ESG practices in accordance with the requirements of those DFIs. This may be acceptable provided that the requirements make explicit reference to:

- responsible investment practices of the fund managers and portfolio companies (in line with the Investment Code);
- improvements over time with targets and time frames, with the IFC's Performance Standards and EHS Guidelines as benchmarks for such improvements for portfolio companies in high-risk sectors;

and include:

- an exclusion list which covers the areas where CDC will not invest;
- an annual ESG reporting requirement in a format satisfactory to CDC; and
- a requirement to inform CDC as soon as possible about any instance involving portfolio companies which result in loss of life, material effect on the environment or material breach of law.

If necessary, CDC's investment team helps fund managers establish and maintain ESG management systems in line with the sectors that fund managers plan to invest in. CDC pays special attention to support fund managers planning to invest in sectors with significant risks from an ESG perspective, particularly fund managers that have not yet developed robust ESG management systems.

Stage 3: Investment monitoring and mid-point evaluations

Monitoring of fund managers' implementation of the Investment Code during the investment period is principally through participation in fund advisory or governance boards and the annual ESG reports that fund managers prepare for CDC. Portfolio directors at CDC are required to compile and present bi-annual monitoring reports on the fund managers for whom they are responsible, which include a section on ESG matters. These reports are discussed by the CDC investment team and ESG manager in CDC's bi-annual monitoring meeting.

CDC provides a reporting template for annual ESG reports to fund managers, which requires inherent ESG risk ratings and a quality assessment of ESG management systems to be provided for each portfolio company in the fund, as well as any ESG issues, realised improvements and future targets.
The portfolio director is responsible for reviewing and acting upon annual ESG reports, escalating issues if necessary. For high risk investments, on-site verifications by CDC will sometimes be necessary.

If there is an instance involving a portfolio company that results in loss of life, material effect on the environment, or material breach of law, CDC expects to learn about this immediately from the relevant fund manager. This is a new requirement in the Investment Code with effect from 1 January 2009. CDC is working with fund managers to ensure that all serious incidents are reported. The CDC portfolio director responsible for that fund follows-up with the fund manager as corrective actions are undertaken to ensure that adequate measures are being implemented in a timely manner. The ESG Manager is consulted, legal counsel is sought and the COO, Chief Executive Officer (CEO) and the Board are informed. CDC follows-up with the fund manager until there are sufficient assurances that the situation has been dealt with in a satisfactory manner to minimise risks of recurrence.

CDC has the most influence with a fund manager when raising a successor fund. This is typically just before the end of the investment period for their current fund, which is usually five years after first closing and approximately the halfway point of the duration of a fund.

This is when CDC conducts a mid-point evaluation. Some evaluations are carried out by CDC staff and some are outsourced to a third party consultant. For evaluations conducted by CDC staff, the Board's Best Practice and Development Committee (BPDC) oversees the independence of evaluation conclusions and performance ratings. The BPDC also reviews and challenges evaluations conducted by the third party consultant. However, evaluation ratings remain the responsibility of the third party consultant for reporting purposes.

ESG performance is one of the dimensions in CDC's evaluation framework. The objective is to take stock of how well a fund has performed on ESG matters, identify any shortcomings and work with the fund manager to bring about improvements as appropriate for the remainder of the duration of the fund as well as for successor funds.

The mid-point evaluation includes a review of the ESG management systems of the fund manager, its internal responsibilities, processes and controls

External perspectives continued

and any specialised external technical support used by the fund manager to identify and mitigate ESG risks and bring about improvements.

Through site visits to a selection of portfolio companies, the mid-point evaluation also reviews how well fund managers' ESG management systems have worked in practice. Their due diligence and monitoring processes should assess and if necessary improve the ESG performance of portfolio companies. Site visits focus on high-risk sectors and portfolio companies where issues and/or significant improvements have been identified.

The evaluation report requires a description of ESG performance as seen by the evaluation team and a performance rating for ESG. This rating is based on a six-point scale ranging from 'poor' to 'excellent' and takes into account the ESG management systems of the fund manager and the ESG performance of the underlying portfolio companies. Reports to CDC are reviewed by the investment and ESG teams, interviews are carried out and site visits are undertaken.

The mid-point evaluation feeds into CDC's due diligence work and informs investment decisions for investments in successor funds with these fund managers. It is also used in dialogue with fund managers about any issues identified or opportunities for improvements.

CDC's monitoring work continues as described after the mid-point evaluation. The monitoring for the remainder of the investment duration is informed by the mid-point evaluation report as to what improvements may need to be undertaken during the remainder of the fund's duration. Any follow-up actions should be noted in fund managers' annual ESG reports and in CDC's bi-annual internal monitoring reports.

Stage 4: Final evaluations

At the end of a fund's life, typically 10 years after first closing, a final evaluation is undertaken as to how the fund has performed as compared to expectations and targets at the time of CDC's investment.

The findings from the mid-term evaluation and ESG matters reported through annual ESG reports are followed-up in the final evaluation. Improvements on ESG over the investment period are noted in the final evaluation report, as well as any issues that occurred and how the fund manager and portfolio company addressed such issues, with particular attention to high-risk sectors. The fund as a whole is given a final evaluation rating for ESG performance, using the same criteria and ratings scale as that used in the mid-point evaluation.

The findings from final evaluations, like the findings from mid-point evaluations, inform CDC's due diligence and investment decision for follow-up funds.

ESG knowledge management

To support the Investment Code implementation processes and for reporting processes, CDC has established a knowledge management system. The key ESG information generated at each stage of CDC's process is entered into this system, including:

- annual ESG reports from fund managers;
- bi-annual monitoring reports prepared by CDC portfolio directors;
- case studies;
- evaluation reports; and
- instances involving portfolio companies which result in loss of life, material effect on the environment, or material breach of law.

From these sources, aggregate information is compiled for CDC's Development Review. This information is compiled for the portfolio as a whole, as well as by region and major industry sector.

Lessons learned from the ESG performance of CDC's investments are also used as inputs into CDC's investment strategy. In setting investment strategy CDC considers the cumulative effects of its investments to minimise adverse effects, maximise development impact and promote synergies across CDC's portfolio.

Climate change

The Investment Code specifically commits CDC to supporting the reduction of greenhouse gas (GHG) emissions[41] in its investments. CDC's role should be understood within the context of the 1994 UN Convention on Climate Change and the associated 2005 Kyoto Protocol. The UN Framework Convention excludes the developing countries where CDC invests from mandatory GHG reduction targets, but requires them to monitor and report on GHG emissions and allows them to participate in international carbon trading schemes.

CDC is in the process of identifying major risks and opportunities associated with climate change across different sectors and geographies where its fund managers invest. High risk companies will be identified as CDC's fund managers make investments, as will companies in sectors with positive climate change contributions.

Reports to BPDC, the Board and DFID

Finally the implementation process includes reporting mechanisms.

Throughout the year CDC management provides the Board with ESG updates. Aggregated ESG findings from the previous year are also provided in the first quarter each year. The Department for International Development (DFID) receives the same aggregated information on a quarterly basis, with any commercially sensitive or confidential information extracted. The reporting to the Board and DFID together with the Development Review provides the following information:

- a summary of the annual ESG reports received from fund managers and findings from the evaluation reports completed over the previous year;
- summary information about fund managers with portfolio companies in sectors with significant ESG risks and their performance;
- summary information on any serious ESG issues during the previous year and how they were addressed to CDC's satisfaction;
- observed trends on ESG performance among fund managers and portfolio companies; and
- new developments in international best practice standards and any proposed updates to CDC's Investment Code.

Each quarter, CDC reviews the evaluation reports that have been completed during that quarter, approving ratings for evaluations conducted by CDC staff and external consultants. The full Board receives summaries of completed and approved evaluation reports. Management provides a summary of completed evaluations and aggregate outcome ratings each quarter to DFID with any commercially sensitive or confidential information extracted.

Any instance involving portfolio companies which result in loss of life, material effect on the environment, or material breach of law and how these instances were dealt with is reported to CDC's Board at each meeting. At the quarterly meetings with DFID, the Chair of CDC's Board and CDC management provide an assurance that the Investment Code is being implemented appropriately and any serious issues have been dealt with adequately.

Transition

CDC's Investment Code came into effect on 1 January 2009 and any new funds invested in from this date have been required to sign up to it. An effort to transition funds signed up to the previous Business Principles to the Investment Code has been carried out throughout 2009. This has occasionally been challenging as fund managers cannot be required to change the terms of their investment agreements with CDC. However, some managers of existing funds have agreed to sign up to the new Investment Code and most others have given goodwill commitments to CDC to comply with the most significant new requirements: to inform CDC as soon as possible of any incidents at portfolio companies which result in loss of life, material effect on the environment, or material breach of law.

CDC continues to encourage fund managers to comply with the requirement to report annually on ESG matters. Another significant change with the Investment Code is an explicit requirement that high risk portfolio companies work over time to implement the IFC's Performance Standards on Social and Environmental Sustainability and the associated general and industry specific Environmental, Health and Safety (EHS) Guidelines. CDC's previous policies implicitly had the same requirement: that portfolio companies implement all relevant World Bank standards.

Furthermore, the Investment Code has a greater focus on good corporate governance and makes some changes to which businesses and activities are excluded from investments with CDC's capital.

There are a number of older assets, so-called legacy assets. The oldest investment in these assets was made as early as 1957. These legacy assets comprise in total 16 companies and constitute 3.9% of CDC's committed capital (defined as outstanding legal commitments plus portfolio value). These assets signed up to the ESG standards applicable at the time. While fulfilling those obligations, they are not signed up to the Investment Code nor are they legally obliged to do so. There is therefore only a marginal benefit in attempting to implement change in relation to the Investment Code for these assets.

Improvement actions planned and under way

The implementation of the Investment Code is a process of continuous improvement. As CDC works with fund managers through the investment cycle, responding to questions and changes to the operating environment and carrying out evaluations a number of new initiatives and improvements will be introduced. Many are already under way as detailed here.

Guidance

CDC has undertaken a comprehensive overhaul of the ESG Toolkit for Fund Managers, based on the new Investment Code, which will be published and sent to fund managers in the first half of 2010. Improvements include:

- the business case for ESG;
- more guidance on good corporate governance and ESG management systems for fund managers and portfolio companies;
- more detailed due diligence questions for each ESG area;
- more detailed definitions of risk ratings for each area of ESG ;
- guidance on appropriate monitoring and reporting;
- sector specific due diligence check-lists for fund managers that invest in high risk sectors;
- brief guidance on ESG matters for debt funds, SME funds and microfinance;
- guidance on relevant international ESG standards and conventions; and
- sections with guidance on climate change related matters and gender.

Additionally, in 2010, CDC will publish guidance documents for fund managers on how to manage risks and opportunities associated with climate change and on what we expect in terms of management of gender issues. CDC will also seek to promote strategies for portfolio companies to participate in international carbon trading schemes, as an incentive for them to reduce their GHG emissions or to expand operations that offset such emissions, e.g. reforestation or use of renewable energy.

CDC will also provide further guidance on how to rate ESG performance for evaluations and for ratings of quality of the ESG management systems of portfolio companies, to facilitate evaluations and assessment and promote further consistency.

Additional guidance will also be given to CDC investment teams on how to interpret and assess fund managers' ESG reports and ratings.

Training

All professional staff at CDC have received ESG training. Over the course of 2010 the programme of training will be increased including the introduction of assessments to establish the effectiveness of training. Training will also be provided to fund managers with the roll-out of the revised Toolkit on ESG for Fund Managers.

Process improvements

CDC is planning a number of improvements to the process for implementing the Investment Code, including:

- establishing a system to track ESG risk ratings for each investment made by fund managers, to allow CDC to monitor high risk assets more closely. This will include special consideration for assets with significant GHG emissions[42];
- a requirement for fund managers to confirm to CDC that they have obtained portfolio companies' sign up to the Investment Code, where they have control or significant influence;
- improving retention of evidence during monitoring site visits and evaluations;
- fostering a more systematic approach to the follow up of issues and corrective actions in the documentation produced by CDC and fund managers;
- tailoring the implementation approach for microfinance institutions, banks and debt funds, recognising that certain requirements may not be feasible due to the high number of transactions and the further distance from the final recipient of financing;
- rolling out a programme to train fund managers on ESG matters, assisted by the new Toolkit on ESG for Fund Managers, the Climate Change Guidance document and the Gender Study; and
- reporting to the Board and DFID includes fund managers with portfolio companies in sectors with significant ESG risks and their performance. Going forward this will also include portfolio companies with high GHG emissions.

CDC will continue to identify process improvements as part of its ongoing activities. Areas for future consideration include assessing the benefit of guidelines that CDC investment teams can use during site visits to assess the reliability of data provided to CDC and the quality of ESG management systems in further detail, to complement the information received from fund managers. The approach to final evaluations will also be revised to maximise ESG information available for portfolio companies from which the fund has exited.

External perspectives continued

Independent assurance report to CDC Group plc

Scope
KPMG LLP was engaged by CDC Group plc ('CDC') to provide limited assurance over CDC's description of its processes to implement its Investment Code in pages 64 to 67 of the CDC Development Review 2009 ('the Development Review').

Responsibilities
The preparation, maintenance and integrity of CDC's Development Review, including the pages over which we provide this opinion, are the sole responsibility of the directors of CDC.

Our responsibility is to express our conclusions in relation to the above scope and in accordance with the terms of our engagement letter dated 26 January 2010.

This report is made solely to CDC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to CDC those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than CDC for our work, for this report, or for the conclusions we have reached.

Which assurance standards and criteria did we use?
We conducted our work in accordance with International Standard on Assurance Engagements 3000 (ISAE 3000): *Assurance engagements other than Audits or reviews of Historical information*, issued by the International Auditing and Accounting Standards Board.

We conducted our engagement in compliance with the requirements of the IFAC Code of Ethics for Professional Accountants, which requires, among other requirements, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client. The IFAC Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG LLP has systems and processes in place to monitor compliance with the IFAC Code and to prevent conflicts regarding independence.

Section five of CDC's Investment Code, as set out in Appendix 1 (pages 80 to 84) of the Development Review, describes CDC's responsibilities and management system for implementing the Investment Code, and we have used that description as the basis of our evaluation.

What did we do to reach our conclusions?
We planned and performed our work to obtain all the evidence, information and explanations that we considered necessary to understand and review CDC's processes to implement its Investment Code. Our work included the following procedures and evidence-gathering activities:

- interviews with the CEO, Board members, senior management, and relevant staff at CDC to assess the approach to handling material issues, controls in place, incentives and penalties, and escalation procedures;
- interviews with 12 out of 16 investment professionals to discuss their roles in implementing the Investment Code and the activities they carried out as part of screening, due diligence, monitoring and evaluation procedures of selected funds and portfolio companies;
- interviews with the ESG team to discuss work plans, training, internal controls and guidance documents;
- examination of the documentation produced at different points in the investment lifecycle, for a risk-based selection of funds (21 funds out of 134 funds);
- examination of internal and external documentation including correspondence, minutes of meetings, reports and presentations relating to the implementation of the Investment Code;
- examination of training and guidance documentation, including the Toolkit for fund managers, and attended an internal training session for CDC staff; and
- examination of other relevant sections of the Development Review to evaluate whether any disclosures are inconsistent with our findings.

Inherent limitations
As outlined on page 8 and 9 of the Development Review, CDC operates as a fund of funds in the Private Equity industry, in which relationships are generally trust-based and therefore the nature and number of checks between parties may vary significantly. As CDC is one step removed from the companies which ultimately receive its funds, CDC is inherently limited in its ability to perform compliance checks of these companies' performance against minimum requirements of the Investment Code.

Emphasis of matter
Our work covered the design of the processes for implementation of the Investment Code and the extent to which those processes have been implemented in relation to a selection of funds. Our work did not include an assessment or test of adherence of individual funds and portfolio companies to all the principles of the Investment Code.

In the course of our work we noted that CDC's processes have been evolving over time. Therefore whilst CDC has made efforts to apply additional reporting requirements to older funds this has not always been possible or appropriate, for example, in the case of legacy assets as described on page 67.

All of our work was carried out at CDC, not at fund managers or portfolio companies, and included examination of evaluation reports carried out by CDC and Triple Value.

We also draw your attention to the process improvements planned by CDC in their description of the implementation of the Investment Code.

Our conclusion
Based on the scope of our engagement and the work described above, nothing has come to our attention to suggest that CDC's description on pages 64 to 67 of the processes to implement the Investment Code is not fairly stated.

Vincent Neate
Partner

For and on behalf of KPMG LLP
Chartered Accountants
Registered Auditors
8 Salisbury Square
London
EC4Y 8BB
23 April 2010

Adding value in emerging markets

Chapter 7

CDC adds value to its fund managers, portfolio companies and markets in several ways. Through its investments, CDC can reach markets and sectors with poor access to finance. CDC can, in this way, help to build local capital markets and also act as a stimulus to encourage third parties to invest alongside it. Using the knowledge CDC gains, it can also provide support and training for its fund managers and contribute to broader international debate.

It is the additional effects that CDC can bring to the marketplace that differentiates its capital from that of commercial investors.

Chapter 7: Adding value in emerging markets

CDC adds value to its fund managers, portfolio companies and markets in several ways. We reach markets and sectors which have poor access to finance, help build local capital markets, provide support and training, share knowledge, pursue alignment on standards in international forums and mobilise third party capital.

Reaching markets and sectors with poor access to finance

As part of its mandate, CDC has pursued investments in certain funds with higher risk profiles in return for longer-term market building potential. These funds specialise in start-up, early-stage and small and medium-sized enterprises (SMEs) businesses, which are areas often underserved by poorly developed local capital markets.

As an illustration, 74% of third party capital invested at the end of 2008 in Aureos' funds (an SME-specialist fund manager) was supplied by Development Finance Institutions (DFIs) other than CDC. CDC has historically played a pioneering role in establishing SME funds. It established a series of single country funds in Africa in the 1990s which, in part, paved the way for the establishment of the private equity industry in Africa. Moreover, Aureos, CDC's second largest fund manager, was spun out of CDC and has continued its commitment to the SME sector in developing markets. Since 2004, CDC has invested in other SME fund managers as well. These include Avigo in India and GroFin and Business Partners International in Africa. These funds are currently invested in well over 200 SMEs.

CDC is starting to complement investment in equity funds by a movement towards debt capital. Debt financing is often supplied through financial intermediaries and is especially targeted at SMEs, infrastructure projects and lines of credit to banks.

This approach will allow CDC to invest further in countries where equity markets are not well established. In low income countries, in Africa in particular, local longer-term debt financing is largely absent. By risk sharing with local banking institutions CDC can assist in the development of the credit market. Debt funds are discussed in more depth in chapter 4.

Building local capital markets and local investment capacity

CDC's success depends on selecting fund managers with adequate experience and a compelling investment strategy. In particular, CDC seeks fund managers who:

- act in line with CDC's focus on the poorest countries;
- have a record of successful investments in commercially viable and promising companies; and
- maintain a strong commitment to the principles of responsible investment.

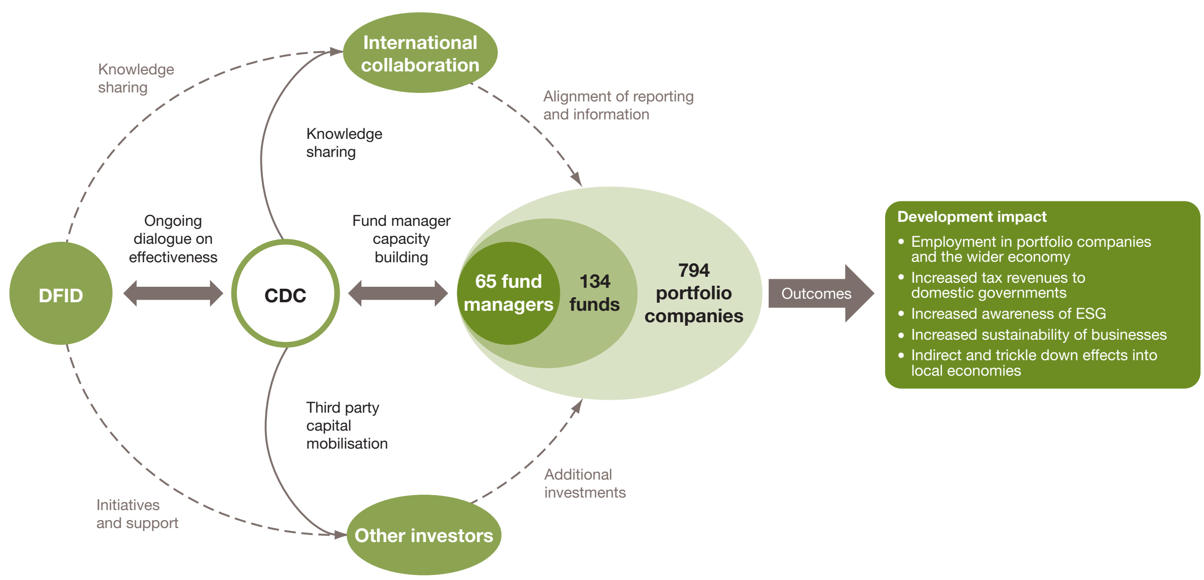
CDC mostly invests in funds with locally-based fund managers, who are also often first time managers. By so doing, the objective is to help establish and develop local financial markets and investment capacity.

Locally based managers

Almost all CDC's fund managers are locally based. All except four have local offices within the environment in which they are investing.[43] This provides CDC with insights from across the entirety of its investment universe. Examples of office locations for CDC's fund managers include Accra, Colombo, Lagos, Nairobi, Johannesburg and Karachi as well as regional offices located throughout India and China.

In total, CDC's fund managers have offices in 37 developing countries. Among CDC's 65 fund managers there are local offices in 14 countries in sub-Saharan Africa and 14 in Asia. There are local offices in four countries in North Africa and seven countries in Latin America. In terms of countries, 18 fund managers have offices in India, 11 fund managers have offices in South Africa and another 11 fund managers have offices in China and South Africa respectively. Some countries are covered by just one local office. An example of this is ManoCap which manages the Sierra Investment Fund from within Sierra Leone.

CDC's added value



Site Visits
CDC conducts site visits, to monitor its portfolio and learn more about the impact of its investments. One company visited in 2009 was Banro, a start-up mine in the Democratic Republic of Congo.

First time fund managers
58% of CDC's fund managers are managing private equity funds for the first time, introducing risk capital to allow local businesses to realise their expansion potential. Historical examples include Aureos, which pioneered SME investments in East Africa in the late 1990s, African Capital Alliance, which managed the first private equity fund in Nigeria and GroFin and Business Partners, which are still largely alone in providing capital for very small companies throughout Southern and East Africa.

CDC continues to back first time fund managers and in 2009 invested with Rabo Equity Advisers in India, as well as Development Partners International and ManoCap in Africa. Supporting such first time managers is often considered to be very risky by commercial investors but CDC's willingness to engage with new fund managers is an important contribution to the development of stronger capital markets in developing countries. CDC works closely with its first time fund managers to ensure that they use CDC's capital and that from other investors to implement the highest standards possible.

In many cases, CDC plays an important role in attracting new investors to funds by working actively with fund managers to help them raise capital. CDC can be seen as a 'stamp of approval' for new fund managers in emerging markets, reassuring and attracting other investors.

Banro Corporation, Democratic Republic of Congo (DRC)

A start-up mine that has received local and NGO support

Banro is a gold exploration company focused on exploring and developing mining rights in the gold belt of eastern DRC. It is listed in both Toronto and New York. The company owns the gold mining production licences of four projects along the Twangiza-Namoya gold belt in eastern DRC. In 2009, the DRC government stated, "that all aspects of the company's Mining Convention and its mining licences respecting the company's wholly-owned gold projects in the DRC are in accordance with Congolese law".
In addition, the Deputy Prime Minister of the DRC and the official in charge of reconstruction, said: "We congratulate Banro on its professional approach and look forward to working together and supporting them on all projects to achieve a win/win for all stakeholders."

The DRC is one of Africa's poorest nations with 60% of the population living below the US$1.25 a day poverty line. It is also a difficult investment environment, ranking 158th on Transparency International's transparency index, an indication of the challenges of doing business there. Actis classifies its investment in Banro as having high inherent Environment, Social and Governance (ESG) risk in what is a rural and often unstable region.

As the Twangiza site progresses towards becoming operational, Banro has worked hard to ensure that its adverse environmental and social impact is minimised. Banro has conducted a socio-economic study of everybody involved in the project and is currently implementing a resettlement action plan for one local community. The plan, which has been drawn up according to World Bank standards, includes 150% compensation for all property lost through relocation.

Banro also aims to be a model for corporate and social responsibility by showing a long-term commitment to the communities in which it operates. Although still an exploration, rather than a mining operation and therefore not yet generating any revenues, Banro has set up the Banro Foundation to help local communities improve their economic situation. The Banro Foundation spent approximately US$0.8m in 2008 on projects including schools, a clinic and a water distribution system. The Banro Foundation has created panels of community members that decide, at a local level, which projects will be financed.

Community relations are important to Banro and are something that the company has worked hard to develop. The non-government organisation (NGO), CARE commented: "Banro is an appropriate partner for CARE as it has demonstrated a serious commitment to community development through the activities of its Foundation and its success in creating capacity-building jobs and opportunities for local Congolese."

Key data

Investment:[1] US$18m
Investment period: 2005-present
Sector: Mining (gold)
Fund manager: Actis
Employment:[2] 1,409
Turnover:[2] Yet to commence production
Resource (measured, indicated & inferred): 11 million ounces gold

1 US$14m was invested by Actis Africa Fund 2. CDC's investment in Actis Africa Fund 2 is US$330m; total fund size is US$355m. US$4m was invested by the Canada Investment Fund for Africa (CIFA), which is also managed by Actis. CDC's investment in CIFA is US$20m; total fund size is US$211m.
2 2008.

View of area around Banro mining site

A secondary school constructed with funds from the Banro Foundation

Adding value in emerging markets continued

Reaching underserved markets

Part of CDC's mandate is to address market failure in emerging markets. One means of measuring this is to look at a country's credit rating, a measure of how likely a country is to default on a loan. Countries with a low credit rating are generally less attractive to investors and therefore prone to lack the capital needed for entrepreneurs. Measuring CDC's portfolio against countries' access to credit is not an easy task. CDC has compared its portfolio from the end of 2009 against two commonly available measures.

The first is Standard & Poor's estimates of the credit rating for individual countries. The second is a ranking for ease of accessing credit as presented by the World Bank's 'Ease of Doing Business' survey. The methodology behind this process is still evolving but the results do provide insight into the distribution of CDC's portfolio.

The results from these two analyses showed similar results. Out of the countries with investment grade ratings approximately 15% of CDC's portfolio companies were located in countries with the best investment grade. According to the results based on Standard & Poor's country credit rating, approximately 28% of CDC's capital is invested in companies within countries beneath the investment grade credit ratings. 23% of companies are in countries which are ungraded and the vast majority of these can also be assumed to have extremely unstable lending markets.

A comparable 29% of CDC's portfolio companies were located in the bottom 60% of countries as ranked in the 'Ease of Doing Business' survey. It is in these countries that access to credit is most difficult and where it is likely that fewest commercial investors will invest. As countries ranked at this end of the scale are typically low income, greater levels of CDC's capital should be invested here in the future.

Support and training for fund managers

One component of the value added by CDC is the training provided to fund managers, most of whom are locally based in their respective markets. One such training opportunity arose in September 2009, when new International Private Equity and Venture Capital Valuation (IPEV) guidelines were introduced. The guidelines were introduced to respond to a desire for greater commonality across private equity in its valuation methods and for more consistency between the International Financial Reporting Standards (IFRS) and United States' Generally Accepted Accounting Principles (US GAAP).

Training for fund managers in Africa and Asia

The introduction of the new guidelines allowed CDC to interact closely with its fund managers to discuss the merits of the IPEV approach. CDC's finance team subsequently held meetings with 14 fund managers, in Africa and Asia, to discuss the new guidelines. Fund managers who have met CDC's finance team include Aureos, BPI, Horizon, I&P, Tuninvest and Vantage in Africa and BTS, IDFC, India Value Fund Advisers, Kotak and VentureEast in Asia.

Comprehensive coverage of topics

Several additional but related topics were also discussed during the training sessions. The meetings allowed CDC to raise specific issues regarding fund reporting in order to improve fund manager's standards in line with best international practice.

Fund managers were also able to discuss the expectations that investors such as CDC and others have of their fund reports and valuations. CDC was also able to gain further insight into how the new guidelines can be best implemented.

Beyond the IPEV guidelines, the training covered other areas of relevance to fund managers, including:

- domiciles of holding companies;
- best practice reporting for mezzanine funds;
- other international accounting standards and conflicts with IPEV guidelines on debt; and
- reporting in two currencies where investments are made in a local currency that is not the fund currency.

The training conducted on the IPEV valuation guidelines was a valuable opportunity for CDC to address and help raise its fund managers' skills in this particular area. The training also improved their ability to manage relationships with other investors.

Matters like these can be challenging to fund managers in CDC's markets. The dialogue with fund managers and the concerns raised provided valuable feedback for CDC and ideas for which it might need to provide additional support.

Number of portfolio companies by Standard & Poor's investment grade

		Largest countries (number of companies)
A-rated	121	China (112), Malaysia (8), Botswana (1)
B-rated but investment grade	269	India (167), South Africa (42),Thailand (17)
B-rated beneath investment grade	219	Kenya (53), Nigeria (41), Costa Rica (14)
C-rated	5	Ecuador (1) and Ukraine (4)
Ungraded*	180	Tanzania (12), Côte d'Ivoire (8), DRC (5)

Source: Standard and Poor's (www.standardandpoors.com/home/en/us)
*Many ungraded countries will be C-rated

Number of portfolio companies by World Bank ease of getting credit ranking

		Largest countries (number of companies)
Top 20%	115	Kenya (53), South Africa (42), Malaysia (8)
Second 20%	345	India (167), China (112), Costa Rica (13)
Third 20%	134	Nigeria (41), Thailand (14), Tanzania (12)
Lower 20%	64	Indonesia (17), Ghana (7), Algeria (7)
Bottom 20%	30	Côte d'Ivoire (8), Senegal (5), DRC (5)
Regional	106	

Source: 'Ease of Doing Business' survey – www.doingbusiness.org/EconomyRankings

Third party capital mobilisation

One of CDC's objectives is to mobilise third party capital investment in emerging markets by demonstrating the benefits of successful investment to other capital providers. In this way, CDC can act as a 'stamp of approval' for new fund managers in emerging markets, reassuring and attracting other investors.

Since 2004, CDC has committed more than US$5bn to 65 fund managers. Alongside CDC's commitments, other investors have committed a total of US$24.3bn to these 65 fund managers. Capital from other DFIs accounts for only US$2.3bn of this figure.

New methodology for estimating third party capital mobilisation
The CDC Board and the UK government's Department for International Development (DFID) agreed that from 1 January 2009 CDC should follow a new methodology when assessing the extent to which third party capital raised by a fund is due to the presence of CDC.

The new methodology applies to all fund managers and recognises that CDC can only influence investors committing capital at the same time or after CDC. In addition, it is recognised that CDC's capital is likely to have had most impact in mobilising capital for first time funds as opposed to later funds with the same manager.

Sierra Investment Fund, Sierra Leone

A pioneering fund in an emerging post conflict country

In November 2009, CDC became the first DFI to make a private equity commitment focused solely on Sierra Leone since the end of the country's civil war in 2002. CDC committed US$5m to Sierra Investment Fund, which makes investments in small and medium sized enterprises in the West African nation. The fund, which is the first of its kind in Sierra Leone, is managed by locally based manager, ManoCap.

CDC's investment will provide financial backing to entrepreneurs in Sierra Leone, stimulating economic growth and strengthening the burgeoning private sector in the country. The country has made significant economic and political progress since the end of the civil war and its democratic government is keen to attract foreign investment. The country has until recently largely been ignored by investors because of its history of violent conflict, its poor infrastructure and a shortage of managerial skills.

Economic growth in Sierra Leone has been strong, averaging about 7% annually over the past five years, despite a chronic lack of access to credit. While Sierra Leone has been reliant on donor funding, CDC's commitment to private sector investment will encourage entrepreneurial talent to establish and grow businesses, which in turn will increase employment and reduce poverty.

ManoCap had already made several investments in Sierra Leone including in Splash (the country's first mobile payment company) and Ice Ice Baby (IIB), a supplier of clean flaked ice to fishermen and other consumers in Freetown, Sierra Leone's capital. Ali Khalil, Operations Manager at IIB, commented on the improvements seen in recent months at the company: "IIB gives me courage to add more effort to the job because when I first started the equipment broke down frequently but since major investments have taken place we now have two generators instead of one and the business is starting to grow."

DFID has a long history of supporting Sierra Leone and is its largest donor, contributing around £48m in aid last year. Gareth Thomas, Minister of State at DFID said: "Sierra Leone is moving forward. This landmark investment by CDC is testament to Sierra Leone's progress and will ultimately benefit people living in extreme poverty by creating employment, improving services and driving forward economic growth."

Key data

Population: 6 million
Average per capita income: US$300 p.a.
Average life expectancy: 49
Gross national income: US$1.4bn
Human development index: last out of 177 countries based on 2005 data
Ease of doing business: 148 out of 182 based on World Bank 2010 indicators
Average GDP growth: 7% over past 5 years

Some of the beneficiaries of investment by the Sierra Investment Project

Adding value in emerging markets continued

Commitment of third party capital at fund closings prior to the one in which CDC participates does not qualify for inclusion in CDC's estimate of capital mobilised. Commitments by other investors in the same fund closing as CDC or in subsequent closings count towards mobilisation and are subject to a so-called tapering factor.

The tapering factor applied will depend on whether it is a first, second or a subsequent fund as follows: first time funds have no tapering, Fund 2s are tapered by 25%, Fund 3s are tapered by 50% and Fund 4s onwards are tapered by 75% so that only 25% of investment by others counts as mobilisation.

The tapering factor is applied to reflect the growing importance of the fund manager's own track record as subsequent funds are raised. Mobilisation is then calculated as the ratio of qualifying tapered third party capital committed to a fund to CDC's commitment.

The target mobilisation rate as agreed with DFID using the new methodology is at least 200% third party mobilisation of CDC's committed capital on a three year rolling basis. Over the three year rolling basis from 2007 to 2009, CDC achieved a figure of 278% capital mobilisation. CDC's total commitment was US$1,505m over this period. Based on CDC's new methodology for measuring third party capital mobilisation the third party capital deemed attributable to CDC's presence was US$4,187m.

Example

Shorecap II – CDC played a key role in the creation of Shorecap II, a microfinance fund and was an investor at first close. CDC was involved from the earliest discussions and was able to establish appropriate levels of personal fund manager commitments and a workable management fee structure. CDC's engagement was important in keeping investor representatives off the fund manager's investment committee. This preserves the independence of the fund management from its investors.

(Total fund $51m; CDC $10m; others $46m)

Insights from evaluations

CDC's evaluation work in 2009 provides further details on CDC's role in investing alongside the capital of others.

The amount of capital invested alongside CDC varies significantly amongst the 20 funds evaluated. Third party capital stands at US$2.45bn compared to CDC's own commitments of US$1.03bn. CDC's capital thus represents 30% of the total committed amount. Of the US$2.45bn capital committed by third parties, 18% was committed by other DFIs. Other DFIs invested alongside CDC in 12 of the 20 funds which were evaluated.

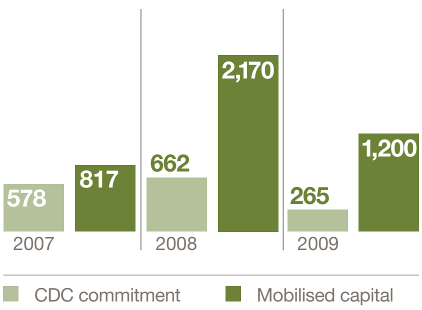
Seven of the 20 funds evaluated raised a total of third party capital in excess of US$100m. Three of these funds were in Africa, two in China and one in South East Asia. The final fund to raise more than US$100m in third party capital was a specialist debt fund. The two SME funds evaluated raised less than US$10m in private capital between them. This illustrates the difficulties faced in raising capital for such strategies.

Nine of the fund managers evaluated had been successful in raising successor funds. CDC invested in all except one of these successor funds. A total of US$3.4bn in capital has been committed to these funds with CDC's capital representing 17% of the total. This suggests that CDC's capital is not required to the same extent in successor funds and that a core part of CDC's work is to maximise capital for first and second funds.

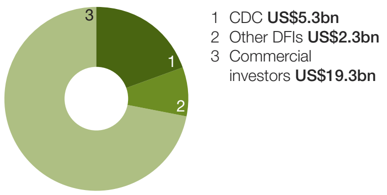
CDC will encourage the fund managers of investee funds and the companies in which it directly invests to operate in ways that, in addition to generating financial returns that meet the expectations of investors, provide other inputs into the private sector and community at large. These will include, by way of example, employment, infrastructure benefits, social and environmental benefits, application of business principles and good governance (through the application of the Investment Code and the creation of ancillary support businesses).

Excerpt from Investment Policy

Third party capital mobilised (US$m)



Total capital committed to CDC's fund managers (US$m)



International collaboration

International collaboration with other stakeholders in emerging markets is essential for CDC for three reasons:

- to share our experience and insights with others and learn from their knowledge;
- to reduce overlapping efforts and repetition of work; and
- to increase the efficiency and effectiveness of our development impact.

For these reasons CDC pursues broad international collaboration and outreach across many channels. In 2009, in addition to our ongoing work with all the European DFIs (EDFI), CDC commissioned a study together with FMO (the Dutch DFI), IFC and Norfund (the Norwegian DFI) to investigate how to encourage gender positive outcomes in our investments.

Gender study

Collaboration in commissioning of gender study

The gender study was commissioned in the autumn of 2009. The intention was to provide practical guidance for the DFIs' investment teams and fund managers on how to address gender matters in investee companies. Specific efforts were made to generate actionable and pragmatic recommendations which would benefit the investee companies as well as their employees.

The study outlined gender-related risks and opportunities in selected regions, countries and sectors in which the DFIs are invested directly as well as indirectly through funds. The study provided a selection of best practice case studies where companies and fund managers have applied some of the recommended approaches in the study. Further details of the study are discussed on pages 54 and 55.

Integration of findings across the participating DFIs and beyond

The key outcomes and recommendations of the study have now been incorporated into CDC's revised Toolkit for fund managers and will also be integrated into CDC's ESG training sessions with fund managers from 2010 onwards.

In addition, the findings of the report will be presented to the ESG representatives of the broader EDFI community in early 2010 with a view to achieving further harmonisation and alignment of perspectives among the DFIs.

EDFI and current collaboration initiatives

The EDFI Working Group on Harmonisation of Environmental and Social Standards was established in 2006. Initially set up as a short-term effort to produce standards for co-financed investments, the outcome and the dialogue was deemed so successful that the working group has continued to meet. In particular, the ongoing harmonisation of reporting formats, exclusion lists, standards and alignment on other matters was considered valuable, not only for DFIs but also for funds and investee companies. The DFI members now meet every six months to discuss current issues and challenges as well as to exchange information and lessons learned.

Achievements in 2009

In 2009 another step towards greater harmonisation was achieved when all EDFI members on 9 May 2009 signed the 'EDFI Principles on Responsible Financing', a declaration on environmental and social principles to be followed by all members when co-financing projects. EDFI members have already started implementing the declaration and have put into action a sound basis for the management of environmental and social risks which was endorsed by all member institutions.

Current initiatives

The EDFI meeting in Helsinki in September 2009 identified 11 themes to be addressed by dedicated working groups during the six month period leading up to the next meeting. The themes covered a broad array of topics including:

- agreement on DFI internal practices (definition of SMEs, exclusion lists, investment fund categorisation, transparency);
- specific ESG risks and topical knowledge (climate change adaptation, corporation governance, gender matters);
- client reporting harmonisation; and
- an aligned EDFI perspective on the updating of the International Finance Corporation's (IFC) Performance Standards.

EDFI London meeting in 2010

The latest bi-annual gathering for the EDFI Working Group on Harmonisation of Environmental and Social Standards took place in April 2010 in London and was organised by CDC. The outcomes of the 11 working groups were presented to all the participants. Further opportunities for alignment were also discussed including joint training of fund managers and sharing of training and other material. Finally, the priorities and strategic direction for the next period was discussed and specific working groups assigned to each of the agreed topics.

EDFI member states

AWS – Austria
BIO – Belgium
CDC – UK
COFIDES – Spain
DEG – Germany
FINNFUND – Finland
FMO – The Netherlands
IFU – Denmark
NORFUND – Norway
OeEB – Austria
PROPARCO – France
SBI-BMI – Belgium
Sifem – Switzerland
SIMEST – Italy
SOFID – Portugal
SWEDFUND – Sweden

Adding value in emerging markets continued

UNPRI and the principles
The United Nations Principles for Responsible Investment (UNPRI) is an initiative to promote the incorporation of ESG issues into mainstream investment decision-making and ownership practices. There are six principles that are voluntary and aspirational in nature and cover ESG issues and related policies and practices. It also includes disclosure of information on ESG issues, collaboration and reporting on progress in implementing the principles.

The intention is that the application of the principles will contribute to demonstrating the business case behind ESG sensitive investment – thereby illustrating both better long-term financial returns and the opportunity to align the objectives of institutional investors and those of society at large.

UNPRI signatories

UNPRI signatories form part of a network with opportunities to pool resources and influence, lower the costs and increase the effectiveness of research and active ownership practices with regard to responsible investment. The initiative also supports investors in working together to address systemic problems that, if remedied, may then lead to more stable, accountable and profitable market conditions overall. In total there are 592 current signatories, which can be divided into three groups:

- asset owners:
  organisations representing end-asset owners who hold long-term retirement savings, insurance and other assets;
- investment managers:
  investment management companies serving an institutional and/or retail market and managing assets as a third-party provider; and
- professional service partners:
  organisations offering products or services to asset owners and/or investment managers.

CDC's involvement and rationale

CDC is actively involved in two working groups, the Emerging Markets and the Private Equity Working Groups. CDC can contribute from 60 years of presence in emerging markets and hopes to learn from the experiences of others. In addition, our fund managers should benefit from third capital raised from fellow UNPRI signatories, something that should result in more stringent incorporation, disclosure and implementation of internationally approved ESG principles.

The portfolio companies will also be able to benefit as investments originating from UNPRI signatories will give access to a network that can provide support and experience towards implementing sound ESG policy whilst also supporting increased financial returns. Perhaps most importantly however is the opportunity that the UNPRI provides to participate in and drive a global ESG discussion with signatories with more than US$18 trillion of assets in 36 countries.

Other Engagements

African Venture Capital Association (AVCA)

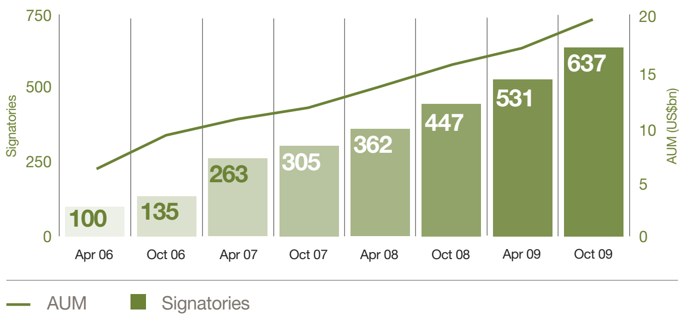
AVCA is a Johannesburg-based not-for-profit entity founded to promote, develop and stimulate private equity and venture capital in Africa. AVCA is committed to promoting high ethical standards of business conduct and professional competence in the private equity and venture capital industries. CDC's support of AVCA further strengthens the development of local financial markets through AVCA's training offerings in private equity broadly, as well as more specific offerings in valuation and stakeholder management.

Royal African Society (RAS)

RAS is one of Britain's foremost societies focusing on Africa, with a history going back more than 100 years. Its in-depth knowledge, long-term engagement and broad membership base makes it an important meeting place for all parties interested in African emerging markets, investors and non-investors alike. RAS aims to foster a better understanding of Africa in the UK and throughout the world and to disseminate knowledge and insight to make a positive difference to Africa's development.

CDC regards its corporate membership and sponsorship of RAS as a vital channel to reach a broader community of influencers, investors and providers of third party capital. The various conferences and other events taking place at RAS bring about a better understanding of the respective markets and what it takes to succeed, both commercially and from a development impact perspective.

The large number of UNPRI signatories and assets under management (AUM) provides an excellent opportunity to learn from and contribute to discussions on responsible investing



Emerging markets challenges – investing for commercial returns

Emerging markets can provide impressive returns but there are also significant risks involved which deter many investors. CDC draws on more than 60 years of investing in these markets with a respectable commercial track record and broad exposure across a wide range of sectors and countries. This section examines CDC's experience and highlights some of the most significant challenges and measures that an investor can take to manage these risks and increase the probability of a successful investment.

Emerging markets and investment fundamentals

While emerging markets are different to developed markets, the fundamentals for investors are broadly the same. Investors in emerging markets should:

- conduct thorough due diligence on potential investments;
- take a long term perspective;
- manage risk as appropriate for the portfolio;
- never compromise on standards; and
- always seek to import best practices where they are needed.

Notable differences between emerging markets and others

Despite the lasting validity of these principles there are also important differences. Investors in developed economies are generally able to rely on impartial, expedient and non-corrupt judicial institutions to settle disputes, breaches of contractual obligations and other legal matters. This is often not the case in emerging markets where a judicial process can take more than 10 years to complete, corruption may be manifest and impartiality is not always guaranteed. Furthermore, the availability and accuracy of information about markets, companies and individuals often leaves investors less informed than in developed economies.

The range and extent of risks also differ significantly depending on the country and the sector of investment. In some countries macroeconomic factors such as infrastructure, monetary policy and regulatory environment may present formidable challenges to the business community. Many emerging markets also face substantial political risk. There can also be large differences between different sectors and the risks they present. Construction, for example, is a sector that involves large investments and is heavily dependent on public permits and certificates which may induce corrupt practices.

Select key lessons learnt

While the risks are many and market information often leaves much to be desired, much can be learned from CDC's and other DFIs' decades of experience in these markets. Some of CDC's key lessons learnt relate to investor approach, fact finding and structure around the investment.

Investor approach

Investors must expect risk and have a tolerance for it. This does not mean taking unnecessary risks, but rather managing them better and devoting more effort to doing so throughout the lifecycle of the investment including during due diligence.

A long term perspective is essential as emerging markets on an individual basis can be very volatile. Should an investor not have the stamina to remain invested for a long time and outlast possible troughs it might impact the return on the investment.

A pioneering mentality and a willingness to approach the unknown is required to confront these challenging business environments. Lack of data, poor infrastructure, short supply of skilled local labour and other constraints require innovative approaches and perseverance.

Fact finding

Local knowledge, independent sources of information and local presence are needed throughout the life of the investment.

Extensive research is required in early stages. This applies equally to markets, companies and key individuals running the business.

Structure

Corruption and lack of transparency are serious issues in many emerging markets. Great attention to detail in governance arrangements is therefore required along with robust and clear legal agreements. Equally important is clear communication on transparency of information, definitions of roles and responsibilities and reporting obligations.

The adoption of ESG best practices can yield significant commercial and non-commercial benefits and is often a key differentiator in emerging markets. It can enhance community relations, strengthen brand and attract and retain talent. It is also a vital consideration in sectors with higher ESG risks such as extractive industries, construction and manufacturing. A diversified portfolio across sectors and countries is even more important in emerging markets as these are often subject to stronger influence of macroeconomic and political factors.

The successful investor will be the one who understands, respects and acts upon these principles of investing in emerging markets.

CDC's results, which over the last five years have out-performed the market, demonstrate that investing in these markets can be both highly developmental and financially successful.

Key considerations for investments in emerging markets

Investor approach
> Tolerance for risk
> Long term perspective
> Pioneering mentality

Fact finding
> Local knowledge and presence
> Background research and checks

Structure
> Corruption and governance
> Best practice approach to ESG
> Diversified portfolio

Increased probability of successful investment

One example of a challenging investment is Alexander Forbes whose transformation after a poor corporate governance event, prior to Actis' investment, is described below.

Alexander Forbes, South Africa

Rebuilding the reputation of a leading investment and insurance intermediary

In 2007, CDC's fund manager Actis invested more than US$96m in Alexander Forbes, a diversified financial services company specialising in risk services, financial services and investment solutions. The company holds a dominant position within the South African marketplace.

Between 1996 and 2004, Alexander Forbes had become involved in the practice of bulking. This involved the company grouping together the current accounts of around 1,700 pension funds in order to negotiate better interest rates. Without disclosing the practice to clients, Alexander Forbes was itself receiving income due to this 'bulking', which upon discovery clients felt should have been passed on to them. After a Financial Services Board (FSB) investigation, Alexander Forbes discontinued the scheme in 2004 and paid ZAR368m (c.US$50m) back to clients and a further ZAR12m (c.US$1.6m) to the FSB consumer education fund. Before making its investment in Alexander Forbes, Actis conducted detailed due diligence on the issues arising from the previous practice of 'bulking'.

It was Actis's conclusion that the matter had been satisfactorily and professionally resolved by Alexander Forbes. Actis was also fully supportive of an Alexander Forbes initiative around the time of due diligence that the business practices of each of its operations should be assessed by independent auditors. The audit highlighted several practices that fell short of international best practice, which Alexander Forbes duly addressed. Moreover, the Board was made aware of certain breakdowns in internal controls. As a result, a risk manager was appointed and a risk and compliance unit created. Risk management has subsequently become one of the CEO's main goals.

Since Actis's investment, Alexander Forbes has also focused on Broad-Based Black Economic Empowerment and has achieved an impressive level 3 rating. This, accompanied by the company's improved environmental management systems, has helped to restore Alexander Forbes's international reputation. For a company of Alexander Forbes' international standing, reputation is vital; Actis's investment and input has played an important role in the process of restoring the company's credibility.

Key data

Investment:[1] US$96m
Investment period: July 2007-present
Sector: Financial services
Fund manager: Actis
Employment:[2] 3,541
Turnover:[3] ZAR4.782m
Turnover growth:[3] ZAR344m
EBITDA:[3] ZAR1.178m
EBITDA growth:[3] ZAR1m
Taxes paid:[3] ZAR166m

1 US$52m was invested by Actis Africa Fund 2. CDC's investment in Actis Africa 2 Fund is US$330m; total fund size is US$355m. US$32m was invested by the Canada Investment Fund for Africa (CIFA), which is also managed by Actis. CDC's investment in CIFA is US$20m; total fund size is US$211m. US$12m was invested by the Actis Africa Empowerment Fund. CDC's investment in the Actis Africa Empowerment Fund is US$50m; total fund size is US$50m.
2 2008.
3 12 months to 31 March 2009.

Other banks in which CDC is invested:
Banque Commerciale du Rwanda (BCR)

Other banks in which CDC is invested:
Equity Bank, Kenya

Appendix

Appendix

CDC's Investment Code

CDC's mission is to generate wealth in emerging markets, particularly in poorer countries, by providing capital for investment in sustainable and responsibly managed private sector businesses.

CDC invests in the creation and growth of commercially viable private businesses in poor countries. Commercially sustainable businesses, supported by CDC, play a vital part in economic development: they employ and train people, pay taxes, invest in research and development, and build and operate infrastructure and services. This contributes to economic growth, which benefits poor people. CDC also mobilises private investment in these markets both directly and by demonstrating profitable investments.

Sustainable private sector development requires responsible business management of environmental, social and governance ("ESG") matters. This Investment Code defines CDC's principles, objectives, policies and management systems for sustainable and responsible investment with respect to ESG.[1] It also includes an Exclusion List, which specifies businesses and activities in which CDC will *not* invest.[2]

1. Principles

CDC, and the businesses in which its capital is invested, will:

- comply with all applicable laws;
- as appropriate, minimise adverse impacts and enhance positive effects on the environment, workers, and all stakeholders;
- commit to continuous improvements with respect to management of the environment, social matters and governance;
- work over time to apply relevant international best practice standards,[3] with appropriate targets and timetables for achieving them; and
- employ management systems which effectively address ESG risks and realise ESG opportunities as a fundamental part of a company's value.

2. Objectives and policies

2a. The environment

Objectives

- To minimise adverse impacts and enhance positive effects on the environment, as relevant and appropriate, from the businesses in which CDC's capital is invested.
- To encourage the businesses in which CDC's capital is invested to make efficient use of natural resources and to protect the environment wherever possible.
- To support the reduction of greenhouse gas emissions which contribute to climate change from the businesses in which CDC's capital is invested.[4]

Policy

Businesses in which CDC's capital is invested will:

- operate in compliance with applicable local and national laws (as a minimum);
- assess the environmental impact of their operations as follows:
  > identify potential risks and appropriate mitigating measures through an environmental impact assessment where business operations could involve loss of biodiversity or habitat, emission of significant quantities of greenhouse gases, severe degradation of water or air quality, substantial solid waste or other significant negative environmental impacts;[5] and
  > consider the potential for positive environmental impacts from business activities; and
- take appropriate actions to mitigate environmental risks, ameliorate environmental damage, and enhance positive effects as follows:
  > where an activity is assessed to present significant environmental risks, work over time to apply the relevant IFC policies and guidelines,[6] if these are more stringent than local legislation, with appropriate targets and timetable for improvements; and
  > as appropriate, work over time towards international environmental best practice standards.[7]

1 CDC's Investment Code is compatible with the 2006 International Finance Corporation ("IFC") Policy and Performance Standards on Social and Environmental Sustainability ("IFC Performance Standards"). See www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards. A Fund Manager that follows the IFC Performance Standards fulfils the requirements on the Environment and Social Matters set out in this Investment Code. The Investment Code is also compatible with the 2007 agreement for common environmental and social standards among the European Development Finance Institutions ("EDFI Rome Consensus").
2 CDC's Exclusion List is compatible with those of the IFC and the EDFI Rome Consensus.
3 As referenced in this Investment Code and as may develop over time.
4 In line with the 1994 United Nation Framework Convention on Climate Change and the associated 2005 Kyoto Protocol ("UN Framework Convention"), see www.unfccc.int/2860.php as may be amended from time to time.

2b. Social matters

2b.i. Labour and working conditions

Objectives

- To require the businesses in which CDC's capital is invested to treat all their employees and contractors fairly and to respect their dignity, well-being and diversity.
- To encourage the businesses in which CDC's capital is invested to work over time towards full compliance with the International Labour Organization ("ILO") Fundamental Conventions[8] and with the United Nations ("UN") Universal Declaration of Human Rights.[9]

Policy

Businesses in which CDC's capital is invested will:

- comply with applicable local and national laws (as a minimum);
- not employ or make use of forced labour of any kind;
- not employ or make use of harmful child labour;[10]
- pay wages which meet or exceed industry or legal national minima;
- treat their employees fairly in terms of recruitment, progression, terms and conditions of work and representation, irrespective of gender, race, colour, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status;
- allow consultative work-place structures and associations which provide employees with an opportunity to present their views to management; and
- for remote operations involving the relocation of employees for extended periods of time, ensure that such employees have access to adequate housing and basic services.

2b.ii. Health and safety

Objectives

- To attain safe and healthy working conditions for employees and contractors of the businesses in which CDC's capital is invested.
- To safeguard the health and safety of all those affected by the businesses in which CDC's capital is invested.

Policy

Businesses in which CDC's capital is invested will:

- comply with applicable local and national laws (as a minimum);
- assess the health and safety risks arising from work activities; and
- take appropriate actions to eliminate or reduce risks to health and safety as follows:
  - > where an activity is assessed to present significant health and safety risks,[11] work over time to apply the relevant IFC policies and guidelines,[12] if these are more stringent than local legislation, with appropriate targets and timetable for improvements; and
  - > as appropriate, work over time towards international best practice standards for health and safety.[13]

5 Activities with potential significant adverse environmental impacts that are diverse, irreversible or unprecedented; mindful of potential cumulative, secondary or synergistic impacts that may occur as a consequence.
6 The IFC Performance Standards and the 2007 IFC Environmental, Health and Safety Guidelines ("IFC EHS Guidelines"), as may be amended from time to time and adopted by CDC. IFC EHS Guidelines include general guidelines and industry sector guidelines for forestry, agribusiness/food production (including fisheries), general manufacturing, oil and gas, infrastructure, chemicals (including pharmaceuticals), mining and power. See www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards and www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate.
7 Including the range of internationally certifiable environmental standards issued by the International Organization for Standardization ("ISO"), the ISO 14000 series, notably including standards for environmental management systems (ISO 14001) and greenhouse gas emissions (ISO 14064-65), as may be amended from time to time. See www.iso.org.
8 The ILO Fundamental Conventions are the Conventions on Freedom of Association and Collective Bargaining; Forced Labour; Child Labour; and Non-Discrimination, as may be amended from time to time. See www.ilo.org/ilolex/english/docs/declworld.htm for the texts of these Conventions and a list of the countries that have ratified each of them.
9 See www.un.org/Overview/rights.html.
10 As defined by the ILO C138 Minimum Age Convention from 1973 and the ILO C182 Worst Forms of Child Labour Convention from 1999. See www.ilo.org/ilolex/english/docs/declworld.htm
11 Activities that could have a severe health or safety impact for workers or affected communities.
12 The IFC Performance Standards and the IFC EHS Guidelines, as may be amended from time to time and adopted by CDC. See www.ifc.org/ifcext/enviro.nsf/Content/ PerformanceStandards and www.ifc.org/ifcext/policyreview.nsf/Content/ EHSGuidelinesUpdate.
13 Including OHSAS 18001, the international occupational health and safety management system specification, and industry specific international good practice standards related to the safety of product use, e.g. the international Good Manufacturing Practice ("GMP") standards for food and pharmaceutical products promoted by the World Health Organization ("WHO"), see www.who.org.

2b.iii. Other social matters

Objectives

- To be objective, consistent and fair with all stakeholders of the businesses in which CDC's capital is invested.
- To recognise and, as appropriate, promote the social development impact from the businesses in which CDC's capital is invested.

Policies

Businesses in which CDC's capital is invested will:

- take account of their impact on employees, contractors, the local community and all others affected by their operations as follows:
  > identify potential adverse effects and appropriate mitigating measures through a social impact assessment in cases involving resettlement, critical cultural heritage, indigenous peoples, non-local labour or other issues where the negative impact could be significant;[14] and
  > consider social development contributions; and
- take appropriate actions to mitigate risks, ameliorate negative impacts, and enhance positive effects.[15]

2c. Governance: Business integrity and good corporate governance

Objectives

- To ensure that CDC, and the businesses in which CDC's capital is invested, exhibit honesty, integrity, fairness, diligence and respect in all business dealings.
- To enhance the good reputation of CDC.
- To promote international best practice in relation to corporate governance in the businesses in which CDC's capital is invested.[16]

Policy

CDC, and the businesses in which CDC's capital is invested, will:

- comply with all applicable laws and promote international best practice,[17] including those laws and international best practice standards intended to prevent extortion, bribery and financial crime;
- uphold high standards of business integrity and honesty;
- deal with regulators in an open and co-operative manner;
- prohibit all employees from making or receiving gifts of substance in the course of business;
- prohibit the making of payments as improper inducement to confer preferential treatment;
- prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest;
- properly record, report and review financial and tax information;[18]
- promote transparency and accountability grounded in sound business ethics;
- use information received from its partners only in the best interests of the business relationship and not for personal financial gain by any employee;
- clearly define responsibilities, procedures and controls with appropriate checks and balances in company management structures; and
- use effective systems of internal control and risk management covering all significant issues, including environmental, social and ethical issues.

14 Activities with potential significant adverse social impacts that are diverse, irreversible or unprecedented.
15 As relevant, by applying IFC Performance Standards on Land Acquisition and Involuntary Resettlement; Indigenous Peoples; and Cultural Heritage; as may be amended from time to time and adopted by CDC. See www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards.
16 Including the 2004 Organisation for Economic Cooperation and Development ("OECD") Principles of Corporate Governance, as may be amended from time to time. See www.oecd.org.
17 Including the 2005 UN Anti-Corruption Convention, see www.unodc.org/unodc/en/treaties/CAC/index.html; the 1997 OECD Anti-Bribery Convention, see www.oecd.org; and, as relevant, the 2005 Extractive Industries Transparency Initiative ("EITI"), see www.eitransparency.org; as may be amended from time to time.
18 CDC promotes the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), see www.iasb.org; and the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC"), see www.privateequityvaluation.com.

3. Exclusions

CDC's capital will not be invested in the following businesses or activities:

- production of or trade in any product or activity deemed illegal under applicable local or national laws or regulations, or banned by global conventions and agreements, such as certain:
  > hazardous chemicals, pesticides and wastes;[19]
  > ozone depleting substances;[20] and
  > endangered or protected wildlife or wildlife products;[21]
- production of or trade in arms, i.e., weapons, munitions or nuclear products, primarily designed or primarily designated for military purposes; or
- production of, use of or trade in unbonded asbestos fibres.[22]

CDC's capital will not be invested in businesses for which the following activities or products are, or are intended to be, a significant source of revenue:

- gambling;
- pornography; or
- tobacco or tobacco related products.[23]

4. Management systems for CDC's fund managers[24]

In order to implement CDC's Investment Code effectively, CDC requires its Fund Managers to enter into a formal agreement pursuant to which each Fund Manager commits to an investment undertaking similar in substance to sections 1 – 4 of this Investment Code.[25]

Where Fund Managers have effective control or significant influence over portfolio companies,[26] CDC requires its Fund Managers to procure that such portfolio companies sign an undertaking confirming that they will operate in line with sections 1 – 3 of this Investment Code.

CDC also requires its Fund Managers to establish and maintain ESG management systems[27] which:

- assess the impact of all new investments on ESG matters as an integral part of the investment appraisal process;
- give new investments a risk rating on ESG issues to determine the appropriate level of management and monitoring;
- if an investment is made despite identified shortcomings in relation to ESG issues, or if any issues would arise during the investment period, assist the portfolio company concerned to develop an action plan to address such issues, with appropriate targets and timetable for improvements;
- encourage the managers of portfolio companies to work towards continuous improvements in these areas, with targets for improvements as appropriate;
- encourage the managers of portfolio companies to adopt and implement policies relating to ESG matters, particularly where businesses entail significant risks;
- monitor portfolio companies' performance on ESG matters and their progress towards relevant action plans and targets for improvements;
- monitor and record incidents involving portfolio companies that result in loss of life, material effect on the environment, or material breach of law, and promote appropriate corrective actions; and
- consider sections 1 – 3 of this Investment Code in all investment and divestment activities.

19 Including those specified in the 2004 Stockholm Convention on Persistent Organic Pollutants ("POPs"), see www.pops.int; the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, see www.pic.int; and the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int; as may be amended from time to time.
20 As covered in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see www.ozone.unep.org, as may be amended from time to time.
21 As covered in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna ("CITES"), see www.cites.org, as may be amended from time to time.
22 This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
23 Except, in the case of tobacco production only, with an appropriate timeframe for phase-out.
24 For the purposes of the Investment Code, "Fund Manager" means (i) investment fund managers managing capital on behalf of CDC; (ii) financial institutions managing and/or investing capital on behalf of CDC; and (iii) other intermediated institutions managing and/or investing capital on behalf of CDC.
25 By side letter or equivalent agreement.
26 A Fund Manager will be deemed to have significant influence over a portfolio company where its fund has (i) an ownership interest in the portfolio company in excess of 20%, which is presumed to be a level that allows for participation in the financial and operating policies of a portfolio company (if the percentage is lower but gives rise to the same participation, this will also meet the definition of significant influence); or (ii) board representation to a level that allows for participation in determining the financial and operating policies of the portfolio company; or (iii) rights to influence the financial and operating policy decisions of the portfolio company pursuant to a shareholders' or similar agreement.
27 Further guidance on ESG management systems and assessments is provided in CDC's Toolkit for Fund Managers, see www.cdcgroup.com. Guidance on environmental and social management systems and assessments is provided in IFC Performance Standard 1, see www.ifc.org/ifcext/enviro.nsf/Content/ PerformanceStandards. ISO 14001 is a certifiable international standard to help organisations minimise how their operations negatively affect the environment, see www.iso.org.

To demonstrate the implementation of this Investment Code, CDC requires its Fund Managers to:

- report annually on the implementation of their ESG management systems and on the performance of portfolio companies against sections 1 – 3 of this Investment Code in a format acceptable to CDC;[28]
- set targets for improvements where appropriate; and
- as soon as possible inform CDC about incidents involving portfolio companies that result in loss of life, material effect on the environment, or material breach of law, and any corrective actions taken.

5. Management systems for CDC

CDC will:

- assist its Fund Managers as appropriate to establish and maintain ESG management systems;
- monitor the implementation of the Investment Code through its Fund Managers' annual reports, with verifications as appropriate;
- evaluate its Fund Managers' implementation of the Investment Code periodically, using internal and external sources as appropriate, usually:
  - > at the end of a fund's investment period or the half-way point of the duration of a fund, which would typically be five years after a standard fund has commenced; and
  - > at the end of the duration of a fund, which would typically be 10 years after a standard fund has commenced;
- in instances where CDC invests directly and independently, establish and maintain ESG management systems substantially similar to those described above for its Fund Managers;
- consider the cumulative effects of CDC's investments with respect to the Investment Code and:
  - > minimise adverse effects;
  - > maximise development impact; and
  - > promote synergies;
- identify major risks and opportunities associated with climate change in investments and potential investments made by its Fund Managers and proactively promote through those Fund Managers the application of international best practice standards in the reduction of emissions of greenhouse gases;[29]
- incorporate lessons learned into CDC's future investment strategy;
- keep up-to-date on new developments with respect to relevant international agreements and best practice standards; and
- review this Investment Code periodically to ensure its continuing suitability and effectiveness.

28 A suggested format for ESG reporting is available on CDC's website, while other reporting formats could be acceptable. See www.cdcgroup.com.

29 In line with the UN Framework Convention, as may be amended from time to time, and including IFC Performance Standards, IFC EHS Guidelines, and ISO 14064-65, as may be amended from time to time and adopted by CDC. See www.unfccc.int/2860.php, www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards, www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate and www.iso.org.

Footnotes

Introduction and Chapter 1

1. Low income countries are defined by CDC in accordance with the World Bank's 2006 categorisation as those countries with Gross National Income (GNI) below US$905 per annum.
2. Middle income countries are defined by CDC in accordance with the World Bank's 2006 categorisation as those countries with Gross National Income (GNI) between US$905 and US$11,115 per annum.
3. OECD, www.oecd.org.
4. UNODC, www.unodc.org/unodc/en/treaties/CAC/index.html.
5. Including those specified in the 2004 Stockholm Convention on Persistent Organic Pollutants (POPs), see www.pops.int; the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, see www.pic.int; and the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int; as may be amended from time to time.
6. As covered in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see www.ozone.unep.org, as may be amended from time to time.
7. As covered in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna (CITES), see www.cites.org, as may be amended from time to time.

Chapter 2

8. 'Voices of the Poor', The World Bank (2009). www.worldbank.org.
9. Sub-Saharan Africans Rank the Millennium Development Goals. Tortara, R. (2009), Gallup Inc.
10. The Eurostat definition has been used in the benchmarks against EU 15 fatality rates: The incidence rate = (number of fatal accidents at work that occurred during the year/number of persons in employment in the reference population) x 100,000. A fatal accident at work is a discrete occurrence in the course of work with physical or mental harm, leading to death within one year of the accident. It excludes accidents on the way to or from work, occurrences having only a medical origin, and occupational diseases. To adjust for differences between the Member States in the distribution of workforce across the risk branches, a standardisation is made giving each branch the same weight at national level as in the European Union total.

Chapter 3 (Asia)

11. Annual Deal Round Up 2009. www.vccedge.com;
12. Reserve Bank of India, www.rbi.org.in.
13. Article 'Worryingly fragile', The Economist, 13 November 2009.
14. 'Global Employment Trends', January 2010 publication, as appeared on www.ilo.org.
15. IFC '2008 Annual Report: Creating Opportunities'.
16. Alternative Assets Network 'Asia Private Equity Review Jan 2010' www.altassets.com.
17. 'China's Yuan may struggle to meet 3% inflation target', 6 March 2010, Bloomberg News, www.bloomberg.com.
18. Article 'Sensex adds 81 per cent in 2009', as appeared on www.indianexpress.com.
19. www.kaizenpe.com.
20. UNESCO, www.unesco.com.

Chapter 3 (Africa)

21. 'What kind of fiscal stimulus for Africa', The World Bank, www.worldbank.org.
22. 'A Rapid Impact Assessment of the Global Economic Crisis on Uganda', The International Labour Organization, www.ilo.org.
23. 'New Financiers are Narrowing Africa's Infrastructure Deficit', The World Bank, www.worldbank.org.
24. Transparency International, www.transparency.org/policy_research/surveys_indices/cpi/2009.

Chapter 4 (Alternative investment)

25. The 'bottom of the pyramid' is a common reference for the largest, and poorest socio-economic group. In global terms, it applies to be on US$2 a day, typically in developing countries.
26. 'Africa's Infrastructure. A time for transformation'; The World Bank, www.worldbank.org.
27. 'Microfinance in Africa, State-of-the-sector report'; CARE www.care.org.
28. Microfinance Investment Exchange, www.mixmarket.org.
29. Robinson, Marguerite S, 'Microfinance: the Paradigm Shift from Credit Delivery to Sustainable Financial Intermediation', in Mwangi S Kimenyi, Robert C Wieland and J D Von Pischke (eds), 1998, 'Strategic Issues in Microfinance', Ashgate Publishing: Aldershot.

Chapter 4 (Agribusiness)

30. '2008 Annual Report: Creating Opportunities'. International Finance Corporation, www.ifc.org.

Chapter 4 (Financials)

31. 'World Investment Report' (2008); UNCTAD, www.unctad.org.
32. 'Non-performing assets for banking industry to rise', Crisil Rating, 2009.

Chapter 4 (Consumer)

33. 'Special Report: Developing world to overtake advanced economies in 2013' (2009); www.euromonitor.com.

Chapter 5

34. 'Clean Energy Trends 2008'; Clean Edge www.cleanedge.com.
35. 'The impact of climate change on pro-poor growth'; Department for International Development, www.dfid.org.
36. International Labour Conference, 98th Session, 2009 Report VI, Gender equality at the heart of decent work.
37. UNIFEM (2009) www.unifem.org.
38. 'Embedding Gender in Sustainability Reporting – A Practitioner's Guide', 2009; document produced by the Global Reporting Initiative on the International Finance Corporation.
39. Catalyst, 2007. The Bottom Line: Corporate Performance and Women Representation on Boards. McKinsey & Company. 2007. Women Matter: Gender diversity, a corporate performance driver. Deszõ, Cristian L., and David Gaddis Ross. 2008.
40. 'UNDP Gender Guidance for National Aids Responses'; UNDP, www.undp.org.

Chapter 6

41. Gases which contribute to climate change, such as carbon dioxide and methane.
42. As defined by IFC's Performance Standards and IFC/World Bank EHS Guidelines, and as may be amended from time to time and adopted by CDC. The significance of a business contribution to GHG varies between industry sectors. A common threshold is 100,000 tons CO_2 equivalent per year for the aggregate emissions of direct sources and indirect sources associated with purchased energy for own consumption. This or similar thresholds will apply to such industry sectors or activities as energy, transport, heavy industry, agriculture, forestry, and waste management in order to help promote awareness and reductions of emissions. Estimation methodologies are provided by the Intergovernmental Panel on Climate Change (IPCC), various international organisations, and relevant country agencies.

Chapter 7

43. Excluding the seven microfinance fund managers.

Data disclaimer

Whilst we have used our reasonable efforts to ensure the accuracy of data used in this report, certain data has not been audited or independently verified. Most of the data has been provided to us by our fund managers. Fund managers and portfolio companies have reviewed the case studies specifically about them.

Data on employment and taxes paid has been received from many but not all of CDC's portfolio companies. We have received this data from the fund managers who have invested our capital (and the capital of others) in these businesses. Data may be from different points in time but was requested to relate as closely to year end 2008 as possible. Employment data may sometimes include contract workers and other non-permanent workers. Tax data mostly refers to corporate taxes paid in 2008 by CDC's portfolio companies.

Data on employment and taxes paid, as with all other data, in this report save for audited financial data, should be read as indicative of magnitude rather than exact figures. We have therefore rounded all data in a conservative manner. We have avoided extrapolations, which would show estimated data for CDC's entire portfolio, in order to keep quoted figures as close as possible to the information we have received from our fund managers.

Apart from tax data and unless otherwise stated the financial data and valuations contained in this report relate to the year ended 31 December 2009.

Any errors or omissions are regrettable but, as with any report based on extensive data received from third parties in developing countries, difficult to avoid entirely. CDC will continue to seek to improve its efforts to ensure data quality and enrich its knowledge management systems in future.

Feedback

CDC welcomes all feedback on this report and is seeking opportunities to improve the standard of its publications. A feedback form is published online to facilitate this. Please see www.cdcgroup.com

Alternatively, feel free to contact CDC by email at enquiries@cdcgroup.com. Contacts for CDC's ESG and communications team are also available from the website.

Acronyms and additional information

Below is a list of acronyms that occur in the report. It is not intended to be exhaustive, but does show some of the acronyms that occur frequently.

AVCA	African Venture Capital Association
BCR	Banque Commerciale du Rwanda
BPDC	Best Practice and Development Committee
CDM	Clean Development Mechanism
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CER	Certified Emissions Reductions
COO	Chief Operating Officer
DFI	Development Finance Institution
DFID	Department for International Development
DRC	Democratic Republic of Congo
EBITDA	Earning before interest, tax, debt and amortisation
EDFI	European Development Finance Institutions
EHS	Environment, Health and Safety
ESG	Environment, Social and Governance
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
FMO	The Dutch DFI
FSB	Financial Services Board
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GTAP	Global Trade Analysis Project
GTLP	Global Trade Liquidity Program
IC	Investment Committee
IFC	International Finance Corporation
IFPT	International Finance Participation Trust
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IPEV	International Private Equity and Venture Capital Valuation
IRR	Internal Rate of Return
ISO	International Standards Organisation
MFI	Microfinance Institutions
MIV	Microfinance Investment Vehicles
MIX	Microfinance Investment Exchange
MNO	Mobile Network Operator
MSCI	Morgan Stanley Composite Index
NGO	Non-Governmental Organisation
Norfund	The Norwegian DFI
NPA	Non-performing assets
OECD	Organisation for Economic Cooperation and Development
OHSAS	Occupational Health and Safety Advisory Services
RAS	Royal African Society
SEIA	Socio-Economic Impact Assessment
SME	Small and Medium Sized Enterprises
TTFC	Truong Thanh Furniture Corporation
TZS	Tanzanian Shilling
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNPRI	United Nations Principles for Responsible Investment
US GAAP	United States' Generally Accepted Accounting Principles
WWf	World Wildlife Fund
ZAR	South African Rand

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Rare Corporate Design.

Photographs
All photographs originate from CDC's library of photographs of investee companies. They are either supplied by fund managers or were taken by CDC staff on site visits.

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Fund managers

Global

Actis
www.act.is

Aureos
www.aureos.com

Cordiant Capital
www.cordiantcap.com

Minlam Asset Management
www.minlam.com

Shorecap International
www.shorecap.net

Africa

Adlevo Capital
www.adlevocapital.com

Advanced Finance and Investment Group
www.afigfunds.com

African Capital Alliance
www.aca-web.com

African Lion
www.afl.co.za

Business Partners
www.businesspartners.co.za

Citigroup Venture Capital International
www.citigroupai.com

Development Partners International
www.dpi-lip.com

ECP Africa
www.ecpinvestment.com

Ethos Private Equity
www.ethos.org.za

GroFin
www.grofin.com

Horizon Equity
www.horizonequity.co.za

Helios Investment Partners
www.heliosinvestment.com

I&P Management
www.ip-mngt.com

ManoCap
www.manocap.com

Medu Capital
www.meducapital.co.za

Société Générale Asset Management
www.sgam-ai.com

Sphere Holdings
www.sphereholdings.co.za

Travant Capital
www.travantcapital.com

Tuninvest
www.tuninvest.com

Vantage Capital
www.vantagecapital.co.za

Microfinance

Access Holding
www.accessholding.com

Advans
www.advansgroup.com

Berkeley Partners
www.berkeley-energy.com

Caspian Capital Partners
www.caspianadvisors.com

Catalyst Microfinance Investors
www.catalyst-microfinance.com

Global Environment Fund
www.globalenvironmentfund.com

Global Trade Liquidity Programme
www.ifc.org

Asia

AIF Capital
www.aifcapital.com

Centras Capital Partners
www.centrascapital.com

JS Private Equity
www.js.com

Kendall Court
www.kendallcourt.com

Lombard Investments
www.lombardinvestments.com

Navis Capital Partners
www.naviscapital.com

Saratoga Capital
www.saratogacapital.com

India

Ambit Pragma Ventures
www.ambitpragma.com

Ascent Capital
www.ascentcapital.in

Avigo Capital Partners
www.avigocorp.com

Baring Private Equity Partners India
www.bpeindia.com

BTS Investment Advisors
www.btsadvisors.com

ICICI Venture
www.iciciventure.com

IDFC Private Equity
www.idfcpe.com

India Value Fund Advisers
www.ivfa.com

Kotak Mahindra Group
www.kotak.com

Lok Capital
www.lokcapital.com

New Silk Route Advisors
www.nsrpartners.com

Rabo Equity Partners
www.raboprivateequity.nl

Ventureast
www.ventureast.com

China

Capital Today
www.capitaltoday.com

CDH Investments
www.cdhfund.com

CITIC Capital
www.citiccapital.com

CMIA Capital Partners
www.cmia.com

FountainVest Partners (Asia)
www.fountainvest.com

Keytone Capital Partners

Legend Holdings
www.legendcapital.com.cn

Qiming Venture Partners
www.qimingventures.com

Tripod Capital International
www.tripodcapital.com

Latin America

Advent International Corporation
www.adventinternational.com

Altra Investments
www.altrainvestments.com

Nexxus Capital
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CDC Group plc
Cardinal Place
Level 2, 80 Victoria Street
London SW1E 5JL

T: +44 (0)20 7963 4700
F: +44 (0)20 7963 4750
enquiries@cdcgroup.com
www.cdcgroup.com