CDC Group plc Annual Review 2014

Our mission

CDC's mission is to support the building of businesses throughout Africa and South Asia, to **create jobs and make a lasting difference** to people's lives in some of the world's poorest places.

Who we are

CDC was established in 1948 as the first ever development finance institution (DFI). Wholly-owned by the UK government, CDC's mission is to **support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives** in some of the world's poorest places. CDC invests from its own balance sheet and all receipts and profits from CDC's investments are recycled into future investments.

What we do

CDC **supports the growth** of businesses and **job creation across all of Africa and South Asia,** especially in the harder places, because having a job is one of the first steps out of poverty. Over 70 per cent of the world's poor people live in these regions. We aim to invest in countries where the private sector is weak and jobs are scarce, and in sectors where **growth leads to jobs** – directly and indirectly – especially agribusiness, construction, education, financial institutions, health, infrastructure and manufacturing.

How we do it

CDC provides capital in all its forms, including equity, debt, mezzanine and guarantees, and this **capital is typically used to fund growth.** We invest directly and through fund managers that we believe are aligned with our aims.

We apply high-quality commercial investment processes because development impact is well-correlated with strong financial performance. This is how our **investments make a lasting difference** and demonstrate to others that it is possible to invest successfully in hard places.

Find out more about our investment processes on page 10.

As a responsible investor, helping companies achieve good standards of governance, along with strong environmental and social policies, is an integral part of how we add value.

Find out more about our approach to responsible investing on page 12.

Our investment model

OUR APPROACH
Balanced
Commercial
Flexible
Pioneering
Responsible

FINANCIAL INSTRUMENTS
Equity
Debt
Funds
Trade Finance

OUR PRIORITY SECTORS
Agribusiness, Construction, Education, Financial institutions, Health, Infrastructure and Manufacturing

CDC INVESTMENT PORTFOLIO
Africa 47%
South Asia 23%
Other 30%*

Objectives:

Achieve lasting development impact	Generate sustainable financial returns

* Relates to investments made pre-2012 outside CDC's focus geographies.

2014 highlights

£3,369.1m
Total assets

1,277,000
Net new jobs created by CDC investments in Africa and South Asia during 2014, including direct, indirect and induced employment effects

£296.8m
New investment commitments during 2014

6.9%
Average annual return 2010-2014

74
Countries in which CDC has investments

Note: In 2014 we designed a new methodology for accessing our impact. See p54-57 for more information

Contents

2014 at a glance

In Africa and South Asia businesses often cannot access the capital they need to grow. Our job is to invest patient capital in the private sector in these regions. We provide capital in all forms – debt, equity mezzanine and guarantees, both directly and through intermediaries. In 2014, CDC made 19 new investment commitments totalling £296.8m (US$461.8m*).

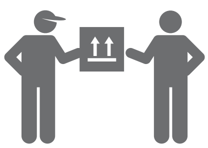
* Typically our investment commitments are US dollar denominated.

New commitments: US$m	Africa **240.9**	South Asia **141.5**	Pan-regional **79.4**
Instrument split: US$m	Equity **131.5**	Debt **122.5**	Funds **132.8**
	Trade finance **75.0**		
Total 2014 commitment: US$m	**461.8**		

Selected impact highlights from CDC's portfolio:

45,000
Size of community supported by Feronia (Agribusiness in the Democratic Republic of Congo)

750
Suppliers have signed up to an ethical Code of Conduct at Jabong (E-commerce in India)



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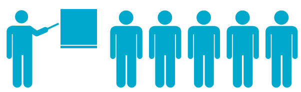
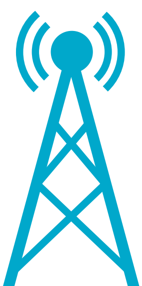
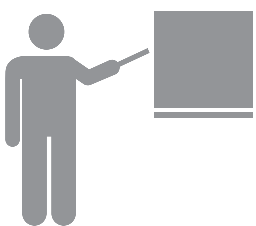


Investment partners receiving environmental, social and business integrity training from CDC

>5,000
Mobile telecoms towers operated by Eaton Towers across 7 countries in Africa (Infrastructure in Africa)



150
New schools opened by Bridge Academies (Primary education in Kenya and Uganda)



Business overview
Country focus
Sector expertise
Investment activity
Performance review

CDC portfolio at year end 2014:

1,331
Businesses supported by CDC capital across all regions

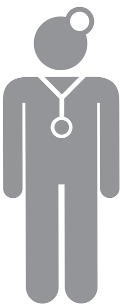
>192,000
Direct jobs supported in Africa

666
Businesses supported by CDC capital in Africa

>340,000
Direct jobs supported in South Asia

367
Businesses supported by CDC capital in South Asia

US$2.34bn
Paid in taxes to local exchequers in Africa and South Asia

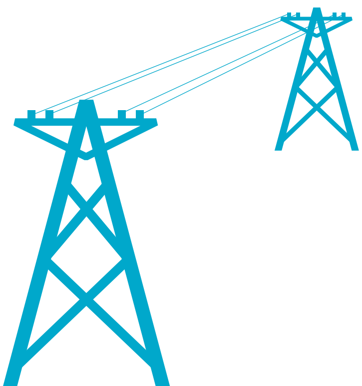


1st
Purpose built children's hospital in India – construction funded by CDC (Rainbow Hospitals in Bangalore)

>1,000,000
Microfinance clients across three networks in Africa (Financial institutions in Africa)

13,000
Textile jobs for Ananta – 65 per cent are women (Manufacturing in Bangladesh)

139MW
Additional capacity at the Azito Energie power plant, resulting from expansion project (Infrastructure in Côte d'Ivoire)



Shareholder's statement

Supporting DFID's development ambitions

David Kennedy,
Director General for Economic Development
Department for International Development (DFID)

Economic development is central to eradicating poverty. Accelerating progress is essential if we are going to achieve the goal of ending extreme poverty by 2030. The evidence is clear that this will require much higher growth rates in many countries, more inclusive growth – in particular for girls and women – and actions to tackle the structural barriers that deny poor people the chance to raise their incomes and find jobs.

The private sector is the engine of this growth, driven by successful businesses, which create jobs and pay the taxes that finance services and investment. Foreign investment, and particularly exports, can accelerate domestic development. DFID currently devotes one fifth of its total budget to supporting economic growth, and CDC is our principal mechanism in this strategy.

CDC has a challenging dual mandate, to achieve both financial returns and development impact. Over the past 65 years a number of enduring characteristics have underpinned its success. It has long-term investment horizons. These are particularly appreciated by its investee businesses, which often require patient owners or lenders to allow them to achieve their aims in tough markets. It is an investment organisation at heart, but with a desire to add value. It does this in areas such as environmental, social and governance standards and practices, going way beyond financial capital. It takes a commercial approach to investing which can generate sustained and scalable impact.

The way in which CDC fulfils its mission has evolved over time, and CDC has undergone profound change since 2012 to better equip it to meet the needs of today's markets. This has brought a sharper development focus, concentrating on job creation in Africa and South Asia, with more difficult investment climates and the ability to invest capital directly as well as indirectly. To achieve this CDC has built a new organisation, including a completely new leadership and a largely new Board.

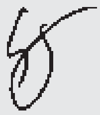
This new team has the motivation, skills and capacity to make and manage challenging investments at a far higher volume than previously. Progress has been significant and encouraging against all targets, and I would like to thank the CDC team for the enormous levels of hard work and effort required to make this happen.

As CDC's shareholder, we understand that their investment horizons are long, often with ten-plus year relationships with fund managers and businesses. It will take many more years until full evidence of the impact of the new strategy can be shown.

I am very optimistic about the future for CDC. By creating better jobs and infrastructure in countries with some of the world's poorest people, CDC is helping those across Africa and South Asia work their way to better lives. This report contains heartening evidence of thriving businesses, visionary entrepreneurs, rising environmental and social standards and the power of capital and engaged investors to make a difference. Through CDC, DFID is proud to play our part in this important work.

Chairman's statement

“We remain focused on our strategy”



Graham Wrigley, Chairman

CDC has always been characterised by progress and change. These have been recurring themes for over 65 years: and rightly so. As the business climates in poorer countries evolve with the ebb and flow of economic development, so CDC too must be dynamic and flexible.

The new strategy we embarked on three years ago involved some major changes – to significantly narrow our geographic focus on the poorest countries and at the same time develop a wider range of investment products to meet the needs of these economies where the need for development challenge is highest. As an organisation we have had to recruit new teams, acquire new skills, and develop new routes to market – but these are challenges that the executive team under the leadership of Diana Noble, our CEO, has embraced. It is still early days but the signs are encouraging as the achievements for 2014 show.

Yet, amid all this change, CDC's core purpose has been constant: to achieve lasting development impact through successful investments that provide a financial return for our shareholder, the UK taxpayer. These twin objectives – and the challenge of maintaining the correct balance between them – remain at the heart of CDC today.

CDC is an investor with long horizons, providing patient capital in very challenging and cyclical markets, and there are inherent and complex risks in what we do (environmental, developmental, political, and financial). So, to mirror the consistency of our double bottom line goals, we are striving to achieve continuity of both our teams and our investment. The people at CDC are vital to our future. In this regard, I would also want to thank CDC's Chief Executive, Diana Noble, and all her team for their huge contribution and effort to the achievement of our mission. Whether their contribution is making a site visit to a remote rural location, or staying late to edit an investment committee document, on behalf of the CDC Board we thank you all for your efforts.

At the Board level, 2014 was a busy year. We welcomed the talents of three new non-executive directors based on a structured evaluation of our needs in the year ahead: Michele Giddens, the founding partner of Bridges Ventures, a specialist fund manager focused on impact investing; Wim Borgdorff, a highly experienced fund of funds investor in the US, Europe and emerging markets; and Keki Mistry, the Vice-Chairman and CEO of India's Housing Development Finance Corporation. After many years of invaluable and dedicated service during a period of significant change for CDC, we sadly said farewell to Fields Wicker-Muirin and Jeremy Sillem who stepped down from the Board this year. I want to thank them both for their great service to CDC. In addition, we have started a regular governance review of how the Board works and we have also recruited several new independent experts to sit on our investment committees.

Throughout this document you will find examples of businesses that CDC can be proud to support: successful companies that are growing and creating jobs, as well as providing vital infrastructure. And behind the facts and figures in this report are human stories of real opportunity for people, families and communities in some of the world's poorest places.

These achievements would not be possible without the support of all our stakeholders across the development and political spectrum – ministers, DFID, our investing partners, the management teams and employees in the companies where we invest in Africa and South Asia, civic society, and many others. On behalf of the Board and the management team I would like to express our real gratitude to them all.

I believe we are making good progress and, after reading this report, I hope you can see that as well. As an institution, we aspire to be both an open and a learning organisation so we welcome any ideas or input you may have on the journey that we are on.

Chief Executive's statement

“2014 was a year of real achievement”

Diana Noble,
CEO

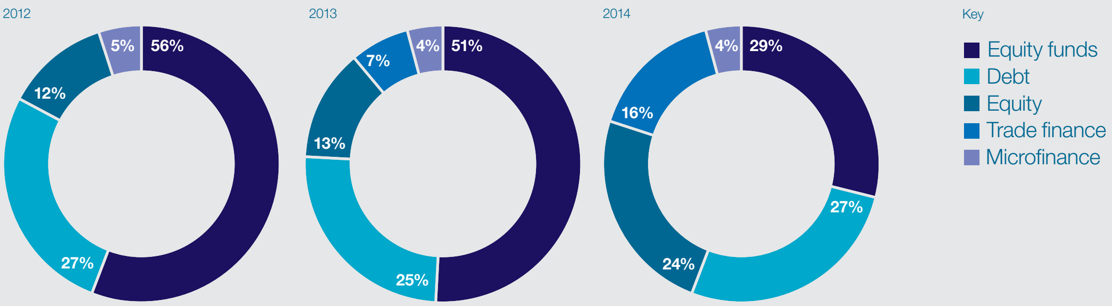
2014 represented another year of strong progress for CDC in executing the strategy we agreed with DFID in 2012 to achieve development impact and also financial return. We achieved our ambitious goals for the year thanks to an outstanding effort from the team, both individually and collectively. While there is some way to go to fully demonstrate the success of CDC's strategy given our long-term investment horizon, the evidence to date is extremely encouraging.

From an impact perspective, CDC focuses on job creation, especially in countries where the private sector is weak and jobs are scarce. Since 2012, the proportion of our investments in high priority job-creating sectors and in the poorest and most difficult countries has risen significantly. Moreover, in 2014, CDC spent considerable resource in understanding better the full effect of our work on job creation in our Africa and South Asia portfolio. Using a methodology that is described more fully later in this Review, the 388 businesses providing data (82 per cent of the total in those regions) contributed to the jobs of over 10.8 million workers, employed directly and indirectly and, more importantly, during the year 1,277,000 net new jobs were created. These results are enormously inspiring to me and the CDC team; we recognise that every good job not only transforms a worker's life, it also transforms that of their family and dependents.

Financially, CDC's performance in 2014 reflects the sound investment decisions taken prior to 2012. Net assets were exceptionally boosted during the year by large currency gains, increases in the legacy China portfolio as well as infrastructure investments in Africa and Latin America made a number of years ago. It will take a few more years for the evidence of the returns from the new strategy to become fully visible; during 2014 this part of the portfolio generated 2.7 per cent pa in US$. Further endorsement of our progress came from the trebling of CDC's stand-by bank facility with improved terms from US$400m to US$1.2bn with ten commercial banks.

> We achieved our ambitious goals for the year thanks to an outstanding effort from the team. While there is some way to go to fully demonstrate the success of CDC's strategy, the evidence to date is extremely encouraging.
>
> **Diana Noble, CEO**

Balance of new commitments



Investment

New investment activity continued at a high rate across all investment teams with US$1.2bn of transactions taken through Investment Committee, 17 per cent higher than 2013. A lower amount was completed during the year at US$0.46bn compared to US$1.06bn in 2013, but this reflected some large transactions with significant negotiations that continued into 2015. We expect volatility in completed investments year-on-year as CDC will always make decisions based on the quality of its pipeline rather than meeting an arbitrary target.

Among our 2014 completed investments we were particularly proud of our US$25m risk participation agreement with Standard Chartered Bank designed to expand critically needed working capital financing in Sierra Leone for companies performing essential functions in the Ebola-stricken economy. In response to the urgency of the crisis, we signed the legal agreements a matter of weeks after the initial idea was discussed.

Together with investments made in previous years, our portfolio now includes businesses providing a third of electricity generated in Côte d'Ivoire and 2 per cent of wind power generated in India; educating 1 per cent of all primary school children in Kenya; performing 150 cardiac surgeries per day in India; and producing 17 per cent of the palm oil used in the Democratic Republic of Congo. While jobs remain our core focus, this demonstrates the broad range of impact that CDC investments can achieve.

At the investment level, CDC has done much to assist management teams and investment partners beyond capital alone. In India we are working with a large online retailer to improve working conditions in its supply chain, while in Africa we are working with a large freight logistics business to raise health and safety standards around the group. CDC's philosophy is to be engaged and supportive where this is the right thing to do, especially through tough times when less patient investors are tempted to withdraw.

Continued overleaf

Chief Executive's statement continued

Team highlights

"I've had the opportunity to play a leading role in the CDC team helping a new pan-African infrastructure fund."
Setor Lassey

"Investing in businesses which have strong commercial prospects while also being highly developmental makes working at CDC different."
Richa Sirohi

"Knowing our investments have such a development impact really makes the job worthwhile."
Kate Hallam

Team

The team continues to grow in line with the market demand for CDC's capital and our burgeoning direct portfolio. CDC feels like a young organisation in many ways with such a high proportion of the team having joined in the past three years. Our challenge, as a long-term investor, is to create stability so that the best people in our markets not only want to join us, but want to stay. Consequently, much thought and effort is being expended on creating a fulfilling and rewarding work environment. In addition to 43 new members of the permanent team during 2014, we supplemented our Investment Committees with new members with long investment experience of our priority sectors and markets to deepen our capacity and experience in decision making during this period of growth.

Setor Lassey,
Investment Executive, Africa Funds
"CDC has an established reputation for backing first time managers and we frequently work with them over a long period to help new funds reach a successful close. Over the last two years, I've had the opportunity to play a leading role in the CDC team helping a new pan-African infrastructure fund develop the right strategy, structure, and market related terms. Supporting a first time team to create an investable proposition has been a great learning experience for me and a lot of fun, while really demonstrating the value CDC can add in our markets. I've built lasting friendships during the deal and I'm proud that I was able to play my part in helping CDC to anchor a unique and exciting infrastructure fund that will help to plug the huge infrastructure deficit in Africa."

Richa Sirohi,
Investment Executive, Equity Investments
"Investing in businesses that have strong commercial prospects while also being highly developmental makes working at CDC different. Narayana Health is a great example of this because it is the third largest hospital business in India that has used innovative practices to become the country's leading low-cost healthcare company. Managing the execution of this investment has been a great learning experience particularly given the very tight deadline. Additionally, it allowed me to experience how companies value a relationship with a long-term investor like CDC that shares their broader goals, as opposed to purely financial investors."

Kate Hallam,
Investment Executive, Microfinance
"I make direct microfinance investments and a highlight of my year was meeting a group of women who are clients of Utkarsh in Dehradun, Northern India. I heard first-hand how their micro-loans were being

The collaborative working culture at CDC is very rewarding and valuable for my personal and professional development.
Natalie Wong

CDC frequently aims to add value by helping our partners identify and maximise on opportunities associated with environmental and social performance.
Pelayo Menendez

used to start small textile businesses, buy grocery stock, and cows in order to provide income for their families, send their children to school, and lift themselves out of poverty. Knowing our investments have such a development impact really makes the job worthwhile."

Natalie Wong, Investment Executive, Asia Funds
"As well as managing a portfolio of over 60 fund investments, the Asia Funds team also works with other divisions and we regularly collaborate on projects. In 2014, I played a leading role on two such projects, working with the DFID Impact Fund team and also the microfinance team. These were great opportunities to learn about other products and strategies within CDC, and to share my knowledge and experience on funds and the South Asia region with my colleagues. The collaborative working culture at CDC is very rewarding and valuable for my personal and professional development."

Pelayo Menendez,
Investment Executive,
Environmental and Social Responsibility
"CDC frequently aims to add value by helping our partners identify and maximise on opportunities associated with environmental and social (E&S) performance. One of the most exciting things about my job is working with our investee companies to achieve this. Following our investment in Grindrod in the early part of the year, I am proud to have built a strong relationship with their team and contributed to the consolidation of Grindrod's corporate E&S standards. The early results are already visible as the company is enhancing its E&S standards for constructing and operating terminals and rail infrastructure in sub-Saharan Africa."

Thank you

So much is happening at CDC and in particular in the companies we support that it is impossible to do it any justice in such a short statement. This Review allows us to showcase a number of great examples that inspire us.

Our shareholder stated in its 2014 Investment Policy that CDC is its "key partner to support development through investments in the private sector". I am grateful to the Secretary of State and the full DFID team for their continued support and look forward to working with them, and our many other partners, in 2015 to grow the private sector and help create good, stable jobs for people in Africa and South Asia.

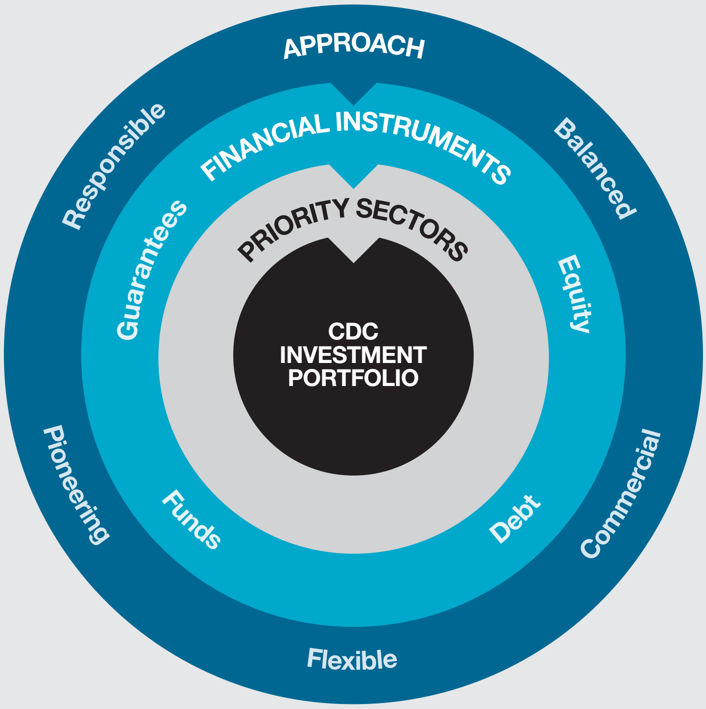
Over the next few pages we explain how we operate and invest…

Business overview
Country focus
Sector expertise
Investment activity
Performance review

Investment model

CDC provides capital in all its forms, directly and through intermediaries.

How we target investment



Our objectives

Since 1948, CDC has pursued an evolving strategy for a changing world, establishing and backing a number of sector-leading businesses in a wide range of countries.

Two objectives have remained constant throughout our history – the need to achieve lasting development impact while generating sustainable financial returns. No investment is made unless CDC is satisfied that it meets the required potential for each objective. Assessing what return and impact are actually achieved over time is also essential.

Our investment approach

Balanced
When investing directly, CDC uses all investment instruments to achieve the financial return we need while tailoring the structure to the particular needs of the client. Investing through funds also remains a core strategy. Funds enable CDC to support a broader range of businesses, especially smaller, enable capacity building among local fund managers and mobilise third party capital.

Commercial
We run highly commercial investment processes because successful, growing businesses also create impact. We also aim for our investments to make a lasting difference, and to demonstrate to others that it is possible to invest successfully in hard places.

Flexible
Our timescales can be flexible and we can take a patient approach post-commitment, often with ten year-plus relationships with businesses or fund managers, because value creation and resultant impact in our markets often takes many years to fully materialise.

Pioneering
CDC is proud of its pioneering heritage, although risk is only accepted after diligence, mitigation where possible and the considered judgement of experienced investment professionals.

Responsible
We recognise that investee businesses need assistance beyond capital, such as practical environmental, social or business integrity guidance and investment in human capital. As a responsible investor, helping companies achieve good standards of governance, along with strong environmental and social policies, is an important part of how we add value.

Our priority sectors

Percentage of portfolio at year end 2014

Infrastructure
28%

Financial institutions
10%

Manufacturing
10%

Agribusiness
5%

Construction
4%

Health
4%

Education
2%

Total, priority sectors
63%

Total, other sectors
37%

Our financial instruments

Funds

CDC provides capital to private equity funds in Africa and South Asia that are aligned with CDC's aims and who we believe will generate attractive financial returns relative to the risk of their strategy. In both regions CDC is one of the largest fund investors across a range of fund types, including generalist, mid-market, SME, infrastructure, industrial and agribusiness. We add value by helping establish new managers and asset classes (such as real estate and infrastructure in Africa) and by assisting teams on issues such as structuring and governance.

Equity

Investing equity directly allows CDC to play an active role in creating and developing highly developmental businesses, maximising impact and improving environmental, social and business integrity standards. We aim to combine the best of the DFI approach of providing long-term capital with the best of the private equity approach of growing businesses and creating value.

Debt

Debt can make a strong contribution to CDC's development impact objectives, by providing patient capital in less developed markets where private equity opportunities may be rare. It was reintroduced to CDC's mix of instruments in 2012, reflecting CDC's desire to have greater flexibility, increased investment control and a more diversified portfolio from a risk, maturity and liquidity perspective.

Guarantees

Trade finance is the mechanism through which CDC provides guarantees. This principally acts to mitigate payment risk between cross-border buyers and sellers of goods and services, and has a strong development impact. It allows firms to use goods as collateral, rather than capital which can instead be used to fund development. Trade is key for corporates (including larger SMEs) to grow and create jobs – a 5 per cent increase in trade finance availability leads to a 2 per cent increase in production and jobs. It also helps firms import strategically important goods such as fuel, food and medical supplies.

Our priority sectors

In 2012, CDC chose seven priority sectors because of their greater propensity to create jobs. These sectors are now the dominant proportion of the CDC portfolio, but we will continue to invest outside these sectors especially in the most challenging regions as new capital supporting any sector in especially capital-starved regions is highly developmental.

Our geography

All of our new investments are now focused solely on Africa and South Asia, areas where we believe our investment can have the greatest development impact. Within the regions we aim to invest in the more challenging markets where fully commercial capital is less plentiful.

Responsible investing

CDC's investments must contribute to long-term sustainable development.

Adding value through responsible investing

Emerging markets face huge challenges across the environmental, social and governance spectrum. There is increasing recognition that long-term economic growth and job creation depend on protecting and enhancing human and natural capital. Environmental, social and business integrity standards are material factors in driving business value.

CDC's investments must contribute to long-term sustainable development. Our approach to responsible investing helps to underpin the resilience of our investment portfolio.

CDC's environmental, social and business integrity functions support the CDC investment teams and our investment partners to integrate good practices into core business activities both pre and post-investment. This ranges from risk assessments to introducing world-class environmental, social and business integrity practices and performance.

Pre-investment value

Knowing and understanding investee companies

Before we make an investment, CDC's responsible investing functions support our investment teams through initial screening and risk-rating of potential investments. We carry out extensive due diligence of potential investments, to assess compliance with national and international regulations and to ensure we invest in companies with a commitment to improve, where necessary, environmental, social and business integrity standards.

We also develop practical corrective action plans to improve practices and agree opportunities to add value and raise standards beyond minimum acceptable levels.

2014 in numbers

12

responsible investing due diligence visits for new direct investments carried out by CDC team

100%

of new direct investments put in place an Environmental and Social Action Plan

Evolution of environmental, social and business integrity performance

Across our portfolio, we often see an evolution of capacity and commitment to environmental, social and business integrity issues. This begins with a commitment to comply with local laws and advances to situations where these issues are seen as strategically important.

1

Comply with the law and international standards

Example: a pan-African logistics company is expanding its international business, so it can demonstrate high levels of environmental and social management capacity and competence in complex areas. These include land acquisition, environmental protection, and contract management of third-party workers.

2

Understand risks associated with an industry or sector

Example: Cameroon's national electricity utility company is evaluating the environmental risks of the utility sector with the potential to impact the value of assets. We are supporting the company to integrate processes to mitigate these risks.

Post-investment value

Monitoring, training and capacity building

We work proactively with fund managers and portfolio companies to improve their approach to environmental, social and business integrity issues. This includes introducing management systems, providing assistance and training for fund managers, providing support to investee companies through active engagement at board and environmental and social sub-committee levels, and ensuring continuous portfolio engagement and monitoring.

Our comprehensive, free-to-use 'Toolkit for Fund Managers' helps private equity investors manage environmental, social and business integrity issues to international standards. The toolkit is currently being upgraded and will be available as an online tool in 2015.

2014 highlights

CDC published guidance for investors to help them assess the likely risks of serious or fatal workplace incidents in emerging markets. The guidance also advises investors on how to reduce the likelihood of such incidents.

CDC provided good practice advice on reducing risk of Ebola infection to our West African fund managers. CDC contacted investment partners operating in affected countries to pool and communicate the advice and best practice being implemented to keep staff safe.

2014 in numbers

97%

of funds in which CDC invests provided an environmental and social monitoring report

4

responsible investing training workshops delivered by CDC. Over 75 participants from 33 CDC backed funds

6

board and environmental and social sub-committee positions at direct investments held by CDC's team

100%

of African funds deemed high or medium-high priority for environment and social issues seen by the CDC team. 85 per cent of these funds received training from CDC

98%

of those attending CDC training workshops rated them as either good or excellent overall

50%

responsible investing monitoring visits carried out by CDC team to direct equity portfolio

3

Implement cost saving

Example: a mixed-use development in Nairobi has commissioned the largest carport solar panel system in Africa. As well as providing shade, the 3,300 solar panels on the carports will generate 1,256 MWh per year, and cut carbon emissions by around 745 tonnes per year.

4

Drive value creation

Example: an independent wind and solar power producer in India is integrating environmental and social issues into their business strategy. This is strengthening the company's capacity to manage these factors alongside purely commercial issues, which increases the company's future finance options.

5

Shape industry sectors

Example: an online clothing company in India is being supported by CDC as it introduces a new Code of Conduct for suppliers and becomes the first Indian company to join the Ethical Trading Initiative as a foundation member. The ethical sourcing practices that are being adopted by the company have the potential to influence the wider retail sector in India.

Country focus: A flexible and pioneering approach in Sierra Leone

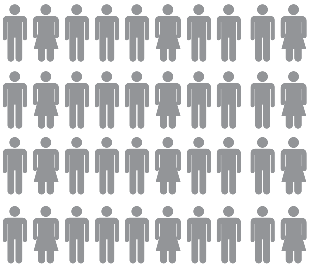
Invest. Support. Rebuild.

Supporting businesses through a crisis

In the face of a public health crisis on the scale of the 2014 Ebola outbreak, the urgent focus is supporting those frontline agencies and individuals carrying out the difficult job of treating the immediate cause and effect.

At the same time, local businesses play their own vital role. It is local businesses that have often the capacity and expertise to help response efforts, and they also provide jobs and supply goods and services.

Over the next few pages we explain how CDC's investments are supporting long-term recovery...

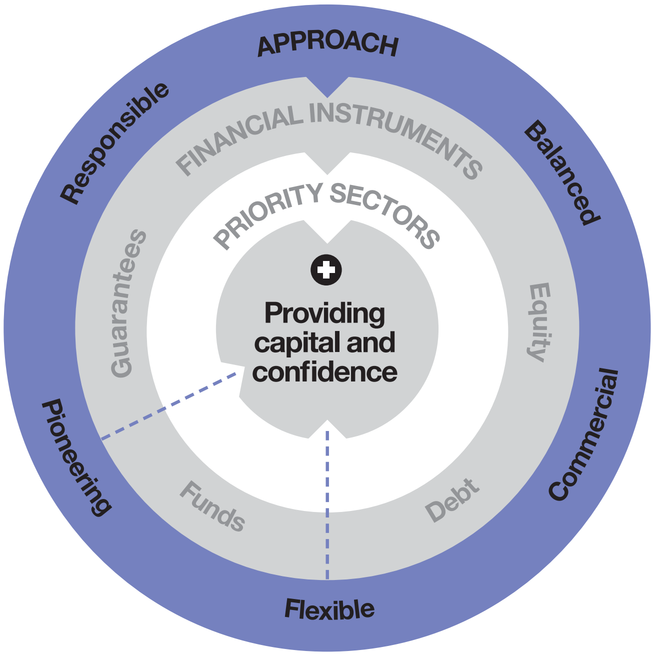


9,000

wage workers and

170,000

self-employed workers are no longer working since the start of the crisis



Supporting businesses through a crisis

The challenge

After the Ebola outbreak, the World Bank forecasts the tiny US$4bn economy in Sierra Leone will shrink by 2 per cent in 2015 versus earlier forecasts of 8.9 per cent growth before the crisis hit.

The context

In 2014, a major Ebola outbreak began to spread across much of West Africa creating a public health disaster in one of the world's poorest and most under-developed areas. The problem was compounded by the fact that the most severely impacted countries, Guinea, Sierra Leone and Liberia, have only recently emerged from periods of conflict and instability, which had damaged their infrastructure and therefore their ability to deal with a crisis of this magnitude.

The challenge

In the first nine months of the Ebola outbreak, more than 3,000 people were killed by the disease in Sierra Leone, a country with a population of six million. The World Bank forecasts the tiny US$4bn economy will shrink by 2 per cent in 2015 versus earlier forecasts of 8.9 per cent growth before the crisis hit. Among household heads, an estimated 9,000 wage workers and 170,000 self-employed workers outside of agriculture are no longer working since the start of the crisis[1].

The role of local business

In the face of a public health crisis on the scale of the 2014 Ebola outbreak, the urgent focus is supporting frontline agencies and individuals carrying out the difficult job of treating the immediate cause and effect. At such moments, the role of investors is limited.

The role of local businesses on the other hand can be significant throughout the crisis. In the case of Ebola in Sierra Leone, while frontline agencies may have been the most important factors in coordinating the response, local businesses had a role to play in providing the capacity and expertise to help deliver efforts. For example, construction firms stopped building houses and started building command centres and logistics firms turned their hand to running ambulance services.

[1] The Socio-Economic Impacts of Ebola in Sierra Leone, World Bank, 2015

US$40m

committed to businesses in Sierra Leone by CDC, helping the country during its transition beyond Ebola

CDC's role

As an investor, CDC's role in disaster relief is limited, but we have implemented fast-track investment processes to provide working capital to local businesses in Sierra Leone, to ensure they can continue to operate and pay wages.

Supporting a long-term recovery

Whilst there is still some way to go in reducing the spread of Ebola in West Africa, the international community is turning its attention to what actions to take to help the economies of Sierra Leone, Liberia and Guinea recover. All three economies were growing rapidly before the outbreak – Sierra Leone grew by 11.3 per cent in 2013 – and big investments were starting to be made.

Across the private sector firms have been stretched to keep operating in the face of such a challenging environment. Unfortunately at such times payments from customers become more erratic, so businesses need working capital. Investors can work with local and international financial institutions to provide liquidity to address this issue.

The crisis has also reminded us that global views on Africa are not always well-informed: the suspension of flights by international airlines to Kenya, thousands of miles from the outbreak, is just one indication. Investors need to be well-informed of the real, as opposed to the perceived, risks and design their responses accordingly. There is a role for pioneering investors like CDC who can provide reassurance and help restore confidence.

New commitments in Sierra Leone

BANK

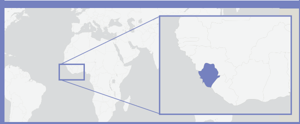
Multiple sectors

Standard Chartered Bank
Sierra Leone

Committed

US$25m

Geography



In response to the crisis, CDC partnered with Standard Chartered Bank to support lending of up to US$50m to businesses in Sierra Leone.

During the crisis many businesses, often those providing essential services such as food distribution and transportation, struggled to access working capital. Regulatory constraints on banks' capital bases meant that they were not able to provide as much liquidity to businesses as was required. By sharing half of the risk on up to US$50m of new loans provided by Standard Chartered, CDC helped ensure that businesses in Sierra Leone were able to continue trading through the crisis.

Although the facility does not explicitly target Ebola relief efforts, a number of the companies that are expected to benefit from the facility are playing a direct role in the mitigation of the effects of the crisis. For example, many of the trading companies are involved in the import and distribution of key food staples such as rice, flour, sugar, cooking oil and beverages, which will be critical to supporting food security, as well as critical non-food items such as building materials, hygiene products and petroleum products, which are critical to Ebola relief efforts.

In light of the urgency of the Ebola crisis, the loan facility was closed in a matter of weeks on a fast-track basis, having been first discussed in October and ultimately receiving legal approval in mid-December.

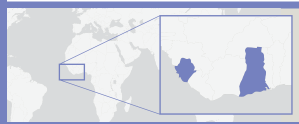
Agribusiness

Miro Forestry
Ghana and Sierra Leone

Planned investment

US$15m

Geography



While conditions have been challenging for businesses, many have continued to trade during the crisis as life continued as normally as was possible.

For example, Miro Forestry, a sustainable forestry business with timber plantations in Ghana and Sierra Leone, was able to continue its operations throughout the crisis. The company took sensible measures to protect its employees, and also funded a radio advertising campaign on how to prevent the spread of infection.

The DFI of Finland, FinnFind, backed Miro in 2014 and CDC has been in investment discussions with the business throughout the year. Talks accelerated towards the end of the year as it became clear that as well as generating employment, an investment in Miro could also send a strong signal of confidence in the country and its ability to recover from the economic effects of the Ebola crisis.

The discussions are expected to conclude in early 2015 with an investment of US$15m.

Miro currently employs 350 people but expects to increase this to 500 in the next two years. Most of these jobs are in rural areas where there is little or no alternative employment. The majority of wood from its plantation forests is sold into local and regional markets for use in the local construction industry, which means the possibility of further job creation in the supply chain.

Growing demand for timber in West Africa has meant that the region currently experiences rising timber imports and prices. Despite being an area ideal for plantation forestry, poor supervision of forested regions and a lack of sustainable practices have led to significant illegal felling in both Sierra Leone and Ghana. Miro, which began planting in 2010 and only plants trees on degraded and unused land, is working toward international Forest Stewardship Council accreditation which will verify that its forests are responsibly managed.

Portfolio in Sierra Leone

Financial institutions

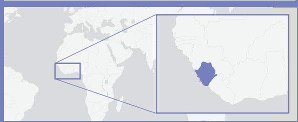
Splash

Sierra Leone

Fund commitment in 2009

US$5m

Geography



“Ebola is known as a caregiver’s disease. If you are a clinician in the red zone, you are possibly at much greater risk than the average person. Unless there is a certain element of incentives, or danger pay, it’s very difficult to attract and retain people.

Sudiptio Mukerjee, UNDP Country Director, Sierra Leone.”

Splash Mobile Money is an investee company of the Sierra Investment Fund, which CDC backed with a US$5m commitment in 2009. Over the past six months, Splash has played an important role in ensuring that health workers fighting Ebola in Sierra Leone are paid their wages.

By October 2014, over 600 people had died from Ebola in Sierra Leone, including 60 nurses and four doctors. Health workers were being asked to pay a terrible price for their service, so to encourage workers to remain at their posts the government brought in a system of hazard pay.

As the outbreak reached its peak, ensuring on-going payments to healthcare workers tackling the spread of the disease was one of the key operational challenges identified by the newly formed National Ebola Response Committee (NERC). Mobile money operators, Splash, Airtel and Africell were asked to assume control of the system.

The undertaking involved monthly distributions of US$4m of hazard pay to over 18,000 response staff, including doctors, nurses and burial teams, often to areas where even the most basic financial system was not present. Sending electronic money using a mobile money application is simple, but ensuring there was sufficient cash available throughout the agent network for workers to access their pay was extremely difficult, particularly in rural areas.

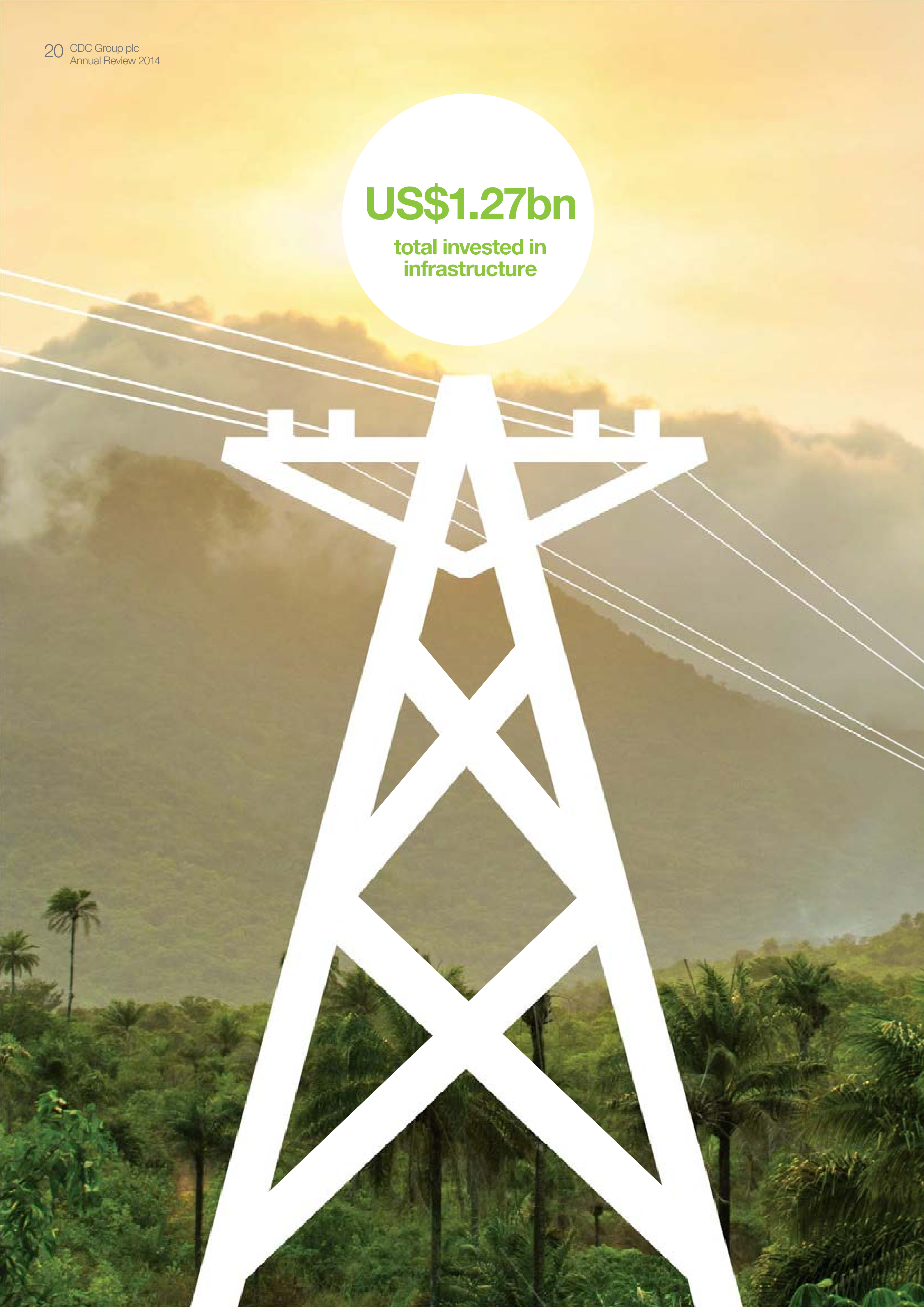
Splash was uniquely placed to lead this challenge. Over the previous two years the business had been responsible for distributing cash for a World Bank project that made conditional cash transfers to 11,000 Sierra Leoneans in 160 villages across the country.

With a system in place, Splash took the lead in the hazard pay project and opened its network up to its competitors’ customers, creating an agent network comparable to ATM networks in other countries.

The first mobile money hazard payments – the single largest disbursement in Sierra Leone’s history – were performed successfully in December 2014. Subsequently US$7m has been distributed to health care workers in every region in the country. To date, 60 per cent of the cash has been paid out by Splash.

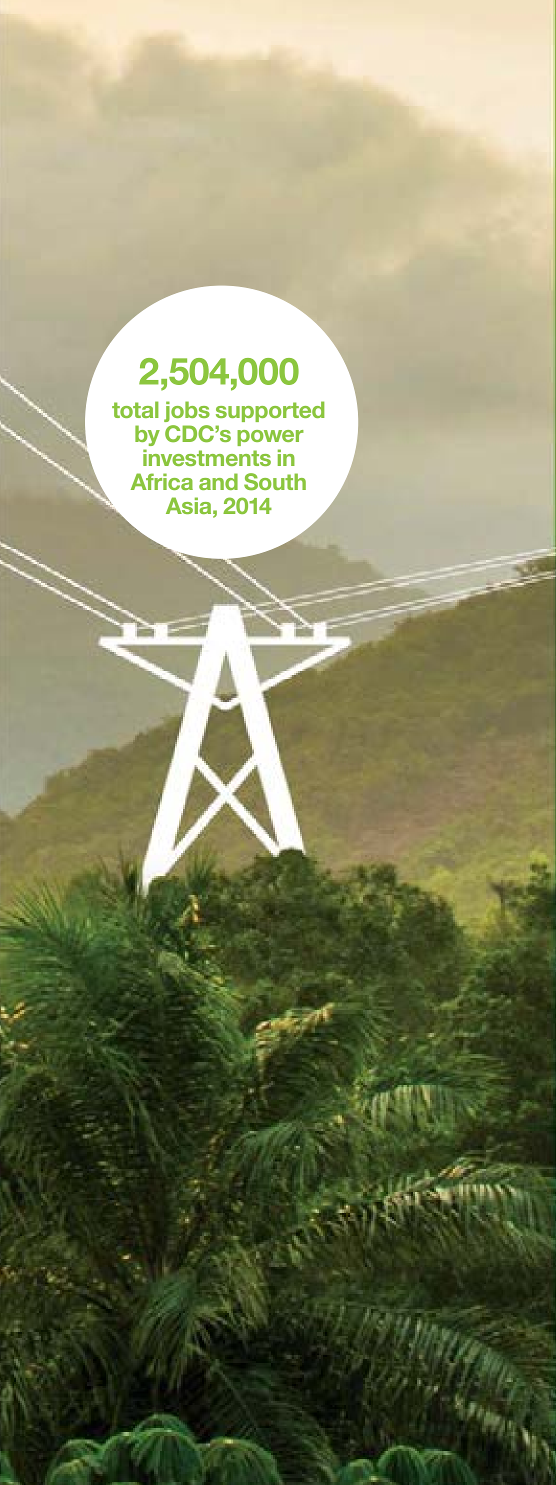
While significant work remains to completely eradicate the virus, the response is now moving into the reconstruction phase and as a result of Splash’s hard work and diligence, the company has been asked to play a key role this effort.

Splash will distribute over US$10m to 35,000 households across Sierra Leone over the next 18 months as part of various recovery projects, involving the World Bank, World Food Programme and many other development partners. Furthermore, the company is in discussions with the IFC and USAID to expand the system to all Ebola hit countries as part of the effort to strengthen the fragile financial infrastructure highlighted by the crisis.


US$1.27bn
total invested in infrastructure

Sector: Infrastructure

Invest. Generate. Distribute.



2,504,000
total jobs supported by CDC's power investments in Africa and South Asia, 2014

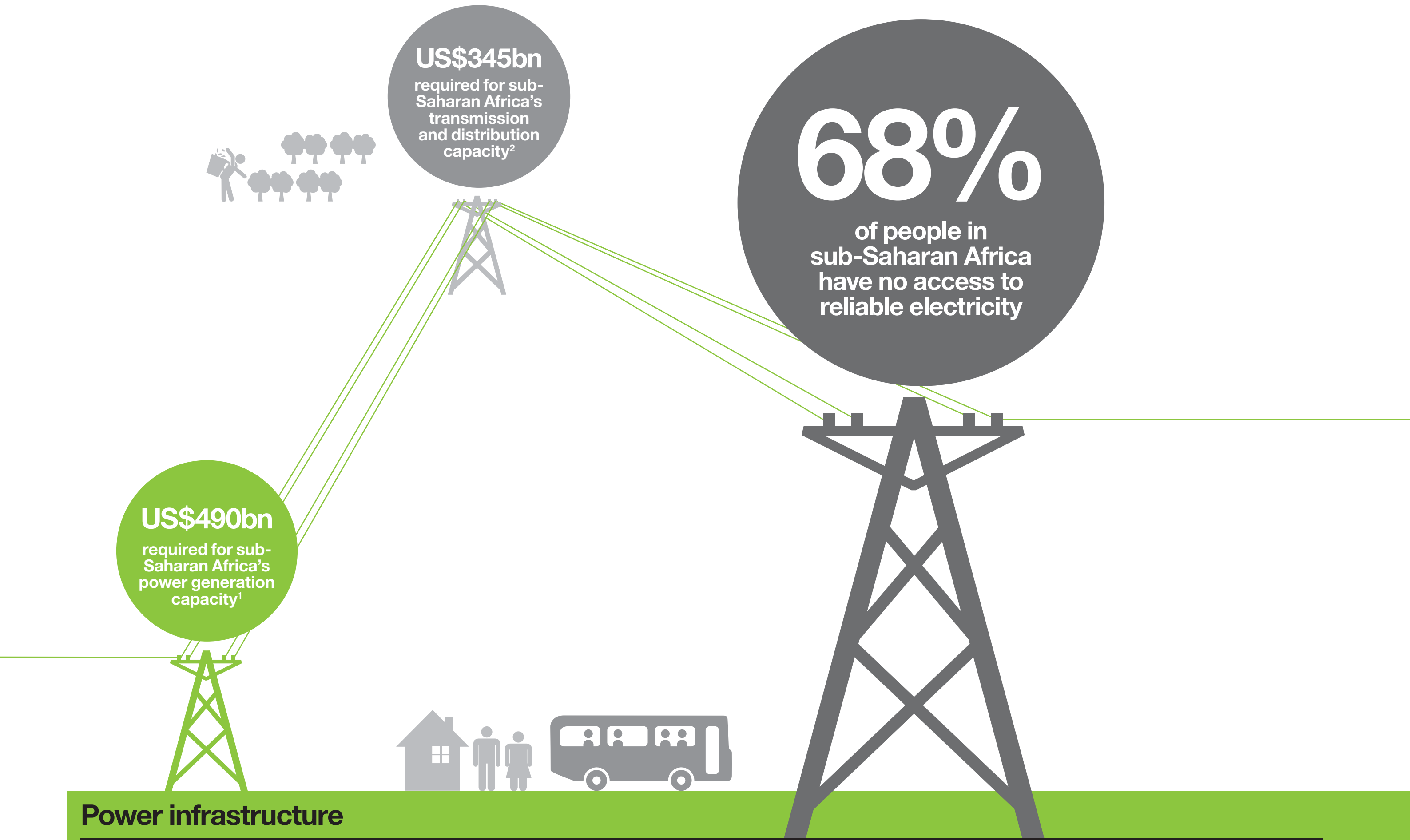
545,000
total jobs created in 2014 by CDC's power investments in Africa and South Asia

Why invest in infrastructure?

Infrastructure is one of CDC's seven priority sectors because it is a critical driver of economic growth. The sector consists of the physical assets that are necessary for sustainable development, and which typically enable an economy to realise its potential.

Within the infrastructure sector, CDC has a specific focus on power. We aim to be flexible and provide capital to all forms of businesses addressing power generation, transmission and distribution capacity in our markets.

Over the next few pages we explain how we help and provide all forms of capital to businesses in this sector…



Power infrastructure

The challenge

In many of the markets in which CDC invests, infrastructure investment has lagged behind the development needs of the economy, significantly inhibiting social and economic progress.

A lack of power is holding back growth

An ODI study on the impact of power projects on economic growth and job creation indicates that in most cases energy and growth are closely linked; and that energy is either the cause or the facilitator of growth and plays a fundamental part in the growth process[3].

In sub-Saharan Africa (outside South Africa), power consumption averages 150 kilowatt-hours (KWh) per person per year, whereas in the UK, each person consumes over 5,000 KWh. This means families cannot light their homes so children can study, or power appliances like mobile phones and fridges. Businesses struggle to establish themselves and grow when the power can stop or the lights can go off at any given minute. Many countries rely on inefficient, expensive, small-scale, oil-based power generation so that power costs around US$0.18 per KWh on average to produce, at least twice as expensive as elsewhere.[4]

In India, the largest market in South Asia, around 300m people, mostly in rural areas, lack access to electricity, with wide inter-state disparities. India's electricity grid suffers from very high transmission and distribution losses, about half of which is estimated to be a result of commercial losses from illegal tapping of lines and faulty electric meters. Even for those connected to the grid, blackouts are common and capacity shortages mean that some 15 per cent of peak power demand is not met.

The challenge in Africa

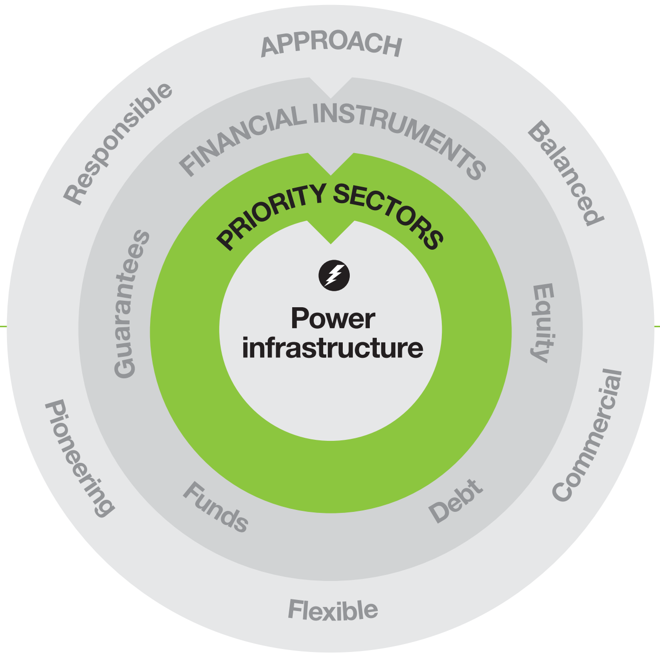
The UN estimates that the population of Africa is set to more than double from the current 900m to 2.1bn by 2050, and to quadruple to 3.9bn by the end of this century. By 2040, sub-Saharan Africa will consume nearly 1,600 terawatt hours of electricity, four times what was used in 2010. In the power space alone, if every country in Africa builds what it needs, the region would require more than US$800bn in capital – about US$490bn of capital for new generating capacity, plus another US$345bn for transmission and distribution[5].

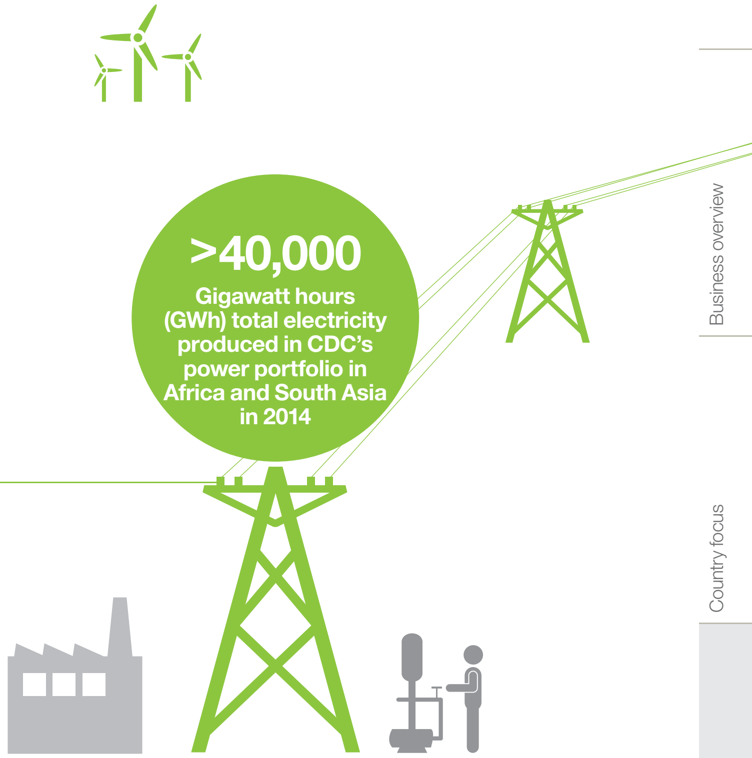
The Africa market

Following the global emergence of new models for the power sector and the introduction of independent power projects (IPP) in the 1990s, reforms in Africa have not been far reaching and only around 20 IPPs (grid connected and with over 40MW capacity) have been developed.

The parameters for collaboration that are taken for granted in other geographies – such as well-defined and tested regulation, government capacity and experience, a transmission infrastructure, credible off-takers and a liberalised market – are often lacking in their entirety in Africa. Additionally, grid availability is frequently limited to major cities and there are overall system inefficiencies.

[1] Brighter Africa, The growth potential of the sub-Saharan electricity sector, McKinsey, 2015
[2] Ibid
[3] The impact of power projects on economic growth and job creation, ODI, 2014
[4] Africa Infrastructure Country Diagnostic
[5] Brighter Africa, The growth potential of the sub-Saharan electricity sector, McKinsey, 2015





CDC's role

As a flexible investor CDC aims to provide capital in all forms to businesses addressing power generation, transmission and distribution capacity across our markets, but with a particular focus on Africa. We will invest directly and in funds, and target a range of fuel types and range of project sizes.

2014 in numbers

US$100.6m
2014 new commitments

US$1,267.4m
Size of portfolio

28.2%
Proportion of CDC portfolio

The investor's challenge

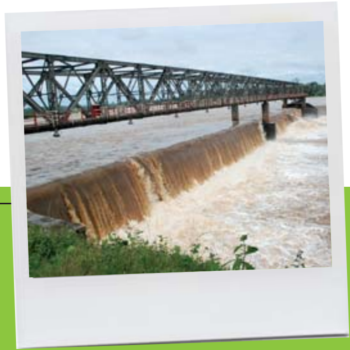
One obstacle to power infrastructure development, particularly in sub-Saharan Africa, is that investing in the early stages of projects is all too often a fruitless, or at best lengthy, venture. Eighty per cent of proposed projects fail to get off the drawing board, and for those projects which do succeed, it can take over five years to reach a point where construction can begin. As a result there is a critical shortage of investors and companies doing early-stage project development. Most large players focus on late-stage developments and the early-stage development is done mainly by under-capitalised and under-experienced local developers.

Sub-Saharan Africa in particular needs well-capitalised investors with a long-term view and a high risk tolerance to take on this early-stage development challenge. While CDC will provide debt and equity across the development spectrum, our equity investments will prioritise opportunities in early-stage power generation.

The CDC approach

Today, with a strong focus on the power sector, CDC now provides capital in all forms to a range of projects of varying sizes and across multiple countries. We invest across the capital structure – from early-stage equity to debt in the construction phase – and target gas-powered and renewable energy generation projects at a range of sizes. Where suitable opportunities exist we also invest in electricity transmission and distribution.

Infrastructure new commitments



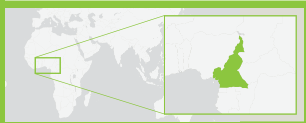
Transmission and distribution

Eneo
Cameroon

Committed

US$10m

Geography



Bringing more people on-grid, to create employment and stimulate economic growth.

With a GDP per capita of US$2,300, Cameroon ranks 186 out of 229 countries in the world. Around 40 per cent of the population is below the poverty line.[1] The country has a total electrification rate of around 50 per cent but this falls to less than 10 per cent in rural areas, according to a report from the African Development Bank. In these areas 90 per cent of the population still use traditional solid fuels such as wood and charcoal. At the same time, demand for electricity is increasing rapidly, growing at 6 per cent a year since 2001.

In 2014, CDC committed US$10m to Cameroon's national electricity utility company, Eneo. The investment was made as part of an overall transaction led by Actis, one of Africa's most experienced investors in the power sector.

Actis and CDC will support the business as it continues to add over 60,000 new customer connections per year. The investment will also aim to reduce losses due to inefficiency in the Eneo network and reduce customer tariffs.

Plans for capital expenditure will enable the business to create 14,000 construction jobs for external contractors over the next eight years. There is a strong positive correlation between increased power generation and overall employment growth in Cameroon, and it is expected that the planned increase in the availability of power over the next eight years will lead to the creation of 420,000 new jobs. This illustrates how a targeted investment in infrastructure can act as a catalyst for wider social and economic development.

Cameroon generation – Kribi & Dibamba
CDC has also committed US$6.4m to two of Cameroon's independent power plants, Kribi and Dibamba. The investment will support the expansion of both power plants and bring much needed lower-cost energy to the country. It is expected that these expansion works will generate 450 direct and indirect roles and, as a result of the increased power capacity, create around 117,000 additional jobs in the wider economy.

[1] World Bank, 2014

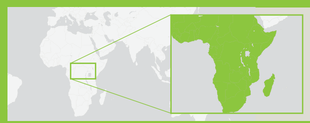
Renewable energy generation

Africa Renewable Energy Fund
Pan-Africa

Committed

US$20m

Geography



Investing in the future of sustainable energy in Africa.

Renewable energy in Africa remains a largely untapped resource. For example, Africa has an estimated 350 GW of potential hydroelectric capacity, with the Democratic Republic of Congo accounting for 50 per cent. Geothermal has strong potential in Ethiopia and Kenya which between them hold 80 per cent of Africa's total proven resources of 15 GW[2]. The potential for solar is vast.

In 2014, CDC made a US$20m commitment to the Africa Renewable Energy Fund to boost the development of renewable energy in sub-Saharan Africa. The fund, managed by Berkeley Energy, is one of the first pan-African private equity funds focused on developing renewable energy infrastructure, and is seeking to attract up to US$200m from investors.

CDC's commitment to the Africa Renewable Energy Fund will make long-term capital available for greenfield renewable energy infrastructure projects. CDC's capital will be used by the fund to invest across the renewable sector, primarily targeting small hydro, wind, solar and geothermal and biomass companies. The fund will aim to make investments between US$10m and US$30m into 10-50MW power projects and expects to build a total of 200-250 MW capacity in sub-Saharan Africa.

[2] Brighter Africa, The growth potential of the sub-Saharan electricity sector, McKinsey, 2015

Infrastructure portfolio

Distribution

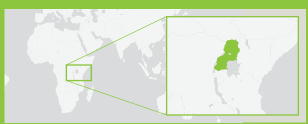
Umeme

Uganda

Invested

US$12.6m

Geography



Transforming power networks to improve supply, safety standards and revenue collection.

In 2004, Uganda's electricity distribution network was very dilapidated and inefficient. As a result of many years of neglect, the network of over 20,000km of poles, sub-stations and wires had fallen into disrepair, leading to serious issues in terms of quality of supply and safety. Customers were not paying their bills, with only about 70 per cent of potential revenues being collected, and electricity theft was common. Connection levels were low, with only about 250,000 customers (both households and businesses) connected to the network.

Umeme took over the concession following privatisation in 2005, and over recent years has played an important role in modernising Uganda's power network. It has replaced rotten poles, cut losses that occur from theft and technical reasons from 40 to 20 per cent, and increased connection levels to nearly 600,000 customers.

Umeme was set up by CDC in 2005, and has since been managed by Actis. In this time, CDC has invested US$12.6m to finance its significant programme of modernisation, alongside Actis who has managed Umeme through this transformation process.

Thanks to the continued support of CDC and Actis, Umeme has been able to make significant improvements to the network. As a result of this programme of work, thousands of jobs have been created – both directly through the work to replace poles and install pre-payment meters; and indirectly by enabling customers to expand their businesses as a result of a reliable supply of electricity.

The long-term, patient support from CDC and Actis has created a company that can now attract investment from wider sources. In November 2012, Umeme launched its IPO, opening up share ownership to its employees and customers. The share offering was a success and Umeme is currently the largest company on the Uganda stock exchange.

Renewable energy generation

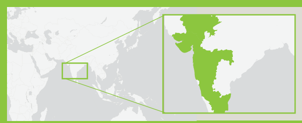
Green Infra

India

Committed

US$25m

Geography



Helping to meet increased energy demand in India with sustainable power generation.

India is not producing enough energy. Despite constrained and relatively low electricity usage, daily demand exceeds supply by around 10 per cent. As the economy grows and more people are connected, the need for energy is rising fast. Demand is expected to double over the next 20 years. In the face of increasing global climate change, renewable energy is set to play an important role in fulfilling the shortfall. Today the country has around 30GW of renewable energy installed with a plan to increase that to over 70GW by 2022.

Green Infra, a wind and solar power producer, currently produces around 450MW of energy across 20 assets in six Indian states. More than 90 per cent of that is from wind farms. Green Infra plans to raise production to 700MW by March 2015, and then to increase capacity by 200 to 300 MW per year.

CDC committed US$25m to Green Infra in November 2013, at a time when private equity investment in infrastructure in India was at a six-year low[3]. With CDC's support, the company is creating jobs in some of the poorest areas of India – both in terms of the construction, operation and management of new wind farms, and indirectly through manufacturing and supply chains. By increasing access to electricity the investment is helping businesses to develop and grow, and create new and better jobs across India.

CDC is also supporting Green Infra to go beyond national environmental and social standards, and as a result the company is introducing an assessment of all the new wind turbines it builds.

As the market for Indian infrastructure recovers, these improvements mean Green Infra is well positioned to attract future investment.

[3] Venture Intelligence, 2013

Sector: Financial institutions

Invest. Support. Expand.

Why invest in financial institutions?

There is a huge funding gap for equity, quasi-equity and debt across our markets in particular for financially excluded entities such as SMEs, micro-entrepreneurs and low-income households. This can be effectively addressed by financial institutions including banks, non-bank financial institutions, and micro-finance institutions.

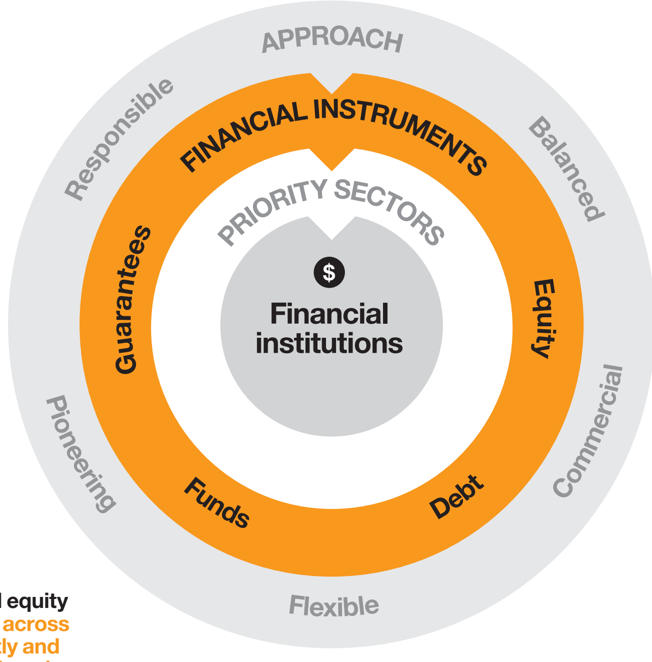
Over the next few pages we explain how we invest...

Estimated credit gap for SMEs in South Asia
US$30-40bn

Date source: McKinsey, 2010
SMEs are defined as Small and Medium-sized Enterprises that typically have fewer than 250 employees


Total unmet need for credit by SMEs in CDC geographies
US$110-140bn
Estimated credit gap for SMEs in sub-Saharan Africa
US$80-100bn

How can CDC increase access to finance for businesses in developing countries?



CDC provides debt and equity **to financial institutions across its markets, both directly and through funds, and addressing businesses of all sizes.**

Financial Institutions

The challenge

A 2013 jobs study by the International Finance Corporation (IFC) confirmed that access to finance is one of the top three limiting factors for businesses seeking to grow and generate employment in developing countries. For small and medium-sized enterprises (SMEs), it is the top constraint.

The context

In Africa and South Asia, banks and non-bank financial institutions (NBFIs) are a central route for businesses to access growth and working capital that supports job creation and economic development.

These financial institutions mobilise capital from individuals and businesses in the form of saving and deposits, and then invest or lend this capital to individuals and businesses for productive or consumptive purposes. In fact, local sources, such as banks, provide the highest source of formal financing for micro, small and medium-sized enterprises (MSMEs) in developing countries, accounting for approximately 50 to 70 per cent of the total[1].

Furthermore, due to their local presence, banks and NBFIs are positioned to channel capital to under-served or hard to reach markets such as customers in rural areas.

The liquidity gap

While these institutions are well placed to assess and lend to local businesses, they often have insufficient capital and borrowing facilities to do so. This means they are unable to provide businesses in developing countries with the levels of capital they need to grow, which has a particular impact on financially excluded entities such as SMEs, micro-entrepreneurs and low-income households.

The total unmet need for credit by SMEs in the formal sector in Africa and South Asia is in the range of US$110 – US$140bn[2]. In Africa this equates to 3.5 – 4.3m businesses that cannot access the finance they need; and in South Asia this equates to 2 – 2.8m businesses. In the informal sector, assessments of the gap are harder, but in South Asia the credit gap is estimated to be over US$280bn.

[1] McKinsey, 2010
[2] Ibid

The capital provided by CDC enables **financial institutions to use their local knowledge** to increase the volume of financing they offer to clients, ranging from larger corporates to micro-enterprises.

With better financing in place, the client businesses can then grow and create jobs and generate tax revenues.

CDC's role

CDC provides a broad range of capital to meet the needs of this important sector. Our strategy is equity-led and focused on core relationships across our markets. **Our flexible approach also enables us to provide senior or subordinated debt to established institutions in more difficult markets.** For equity, we aim to be an active investor and focus on fewer, larger opportunities.

Banks and NBFIs	Microfinance
US$54.3m 2014 new commitments	**US$20.9m** 2014 new commitments
US$215.0m Size of portfolio	**US$81.6m** Size of portfolio
7.5 Percentage of CDC portfolio	**2.8** Percentage of CDC portfolio

Backing the business backers

It is challenging for a UK-based organisation like CDC to get capital to local corporates and SMEs in a cost-effective and prudent way. By focusing on local banks and NBFIs, CDC can harness their local knowledge and networks to direct capital to local businesses of all sizes. CDC would not be able to directly finance these businesses with a small, largely London-based team.

Larger financial institutions can also absorb capital more efficiently. Through these institutions CDC can channel a significant amount of capital to some of the hardest countries we invest in, where private equity or other forms of growth financing are not well established.

Adding value beyond capital

As a shareholder CDC can significantly strengthen an institution by providing corporate governance, environmental, social or business integrity support.

Investment from CDC enhances the reputation of local financial institutions, allowing them to raise capital from other sources and at lower cost. CDC also supports banks in strengthening their local credit skills and processes as they broaden their reach from established businesses to lending to SMEs.

Microfinance

Over 80 per cent of the population in most of sub-Saharan Africa and more than 65 per cent of the population in India does not have access to formal finance. Microfinance is an established route of providing credit to the very smallest microbusinesses.

As well as providing capital to microfinance institutions (MFIs) so they can increase lending, CDC aims to work with MFIs to broaden the range of financial products and services they provide. This includes savings, insurance, home-loans and other products, as well as financial education and inclusion initiatives.

New investment commitments

Local bank

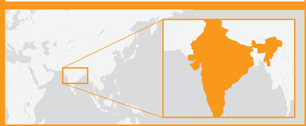
RBL Bank

India

Invested

US$28m

Geography



Helping RBL Bank reach more financially excluded people in a responsible manner.

The Indian banking sector is growing at a rate of 14–16 per cent a year, but according to the World Bank 65 per cent of India's 1.2bn people still do not have access to formal financial services. This limits their ability to plan, save or borrow to improve their economic prospects.

RBL Bank was set up in 1943, and in recent years has pursued an expansion strategy focused on financial inclusion, agribusiness financing and lending to SMEs, as well as increasing the bank's geographic footprint. Its financial inclusion and agribusiness divisions both cater to significant financially excluded groups – small and marginal farmers and female micro-entrepreneurs – making the bank well-positioned to access this untapped segment of the market.

In April 2014, CDC made a US$28m equity investment in the bank. The investment will provide stable support and capital to the bank as it continues to implement its strategy, including expansion into India's poorer states such as Rajasthan, Madhya Pradesh and West Bengal, where the penetration of financial services is low.

RBL Bank currently employs close to 2,500 people both at head office and in the field. The bank's growth strategy will require additional staff in new branches as well as in central operations, with almost 5,000 jobs projected to be created by 2018. The bank's lending operations will also facilitate client company growth, creating further jobs in RBL's onward supply chain.

Since investing CDC has worked with RBL Bank to develop a new financial literacy programme that has been rolled out in Madhya Pradesh. The programme aims to reach around 25,000 people and 300 villages.

Microfinance institution

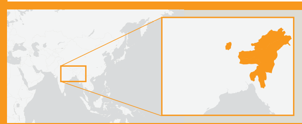
Utkarsh

India

Invested

US$11m

Geography



Providing financial services to India's unbanked rural poor.

Utkarsh is one of the most socially-responsible, sustainable and scalable MFIs in India. Based in Uttar Pradesh, the company provides financial services to the under-served and unbanked low-income rural population in north-east India.

The core business offering of Utkarsh is joint liability group loans, which are typically offered to groups of women in rural areas for productive purposes. Loan sizes range from US$100 to US$420 and make up 99 per cent of Utkarsh's current client base of 318,000 active microfinance borrowers, all of whom are female. Through its individual lending product, Utkarsh supports over 2,400 micro-enterprises.

Towards the end of 2014, CDC made a US$11m direct equity investment which will be used as growth capital to increase Utkarsh's product range and to help it expand into other services including micro-enterprise loans. CDC will also be active in developing Utkarsh's environmental and social policies, helping the institution implement a code of conduct and join the SMART Campaign that promotes responsible lending among MFIs.

Investment portfolio

"I'm using the money to pay my children's school fees, to pay the rent, feeding myself also. Actually, I want them to be in the future better. Better than me."

Margaret Bako, Supervisor, Clean Plus Professional Services

Local bank

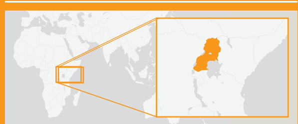
DFCU

Uganda

Most recent investment

US$10m

Geography



Giving SMEs access to much needed long-term financing in Uganda.

In Uganda, most of the funding offered by banks is short-term, but long-term finance is needed for the growth of most SMEs. For the last 50 years DFCU has tried to address this shortage with its special focus on providing SMEs with the long-term funding they need. It concentrates on providing finance for businesses in certain sectors, including education, agribusiness, construction and manufacturing. The bank has also recognised that women have an important role to play in the country's development and tries to help female entrepreneurs overcome the challenges they face.

In 2007, the bank set up a 'Women in Business' programme, which currently supports over 6,500 businesswomen and provides training, networking opportunities, preferential borrowing rates and mentor programmes. The programme offers support and products for different groups of women, dependent on the nature of their work.

Professional women are offered access to finance through salary loans. Female traders are given unsecured lending of up to US$20,000, enabling them to trade and return the money when they are finished selling their goods. Rural women have been supported to set up investment clubs, in order to pool savings.

A good example of the Women in Business programme is Clean Plus Professional Services in Kampala, which employs 175 people. While the business now enjoys success, its founder, Yvonne Katamba, initially found it difficult to open a business account at many banks. She turned to DFCU, where she found the conditions much more favourable for a start-up business. Later, a loan of approximately US$14,000 from DFCU enabled her to purchase a vehicle, a scrubber machine and a vacuum cleaner. Yvonne has also benefitted from the bank's 'Women in Business' programme, which has provided her with training opportunities.

DFCU was founded in 1964 by the Government of Uganda and CDC. Over the last 50 years, CDC has been an active investor and provided capital and advice to help the bank develop and grow. CDC's investment has allowed the bank to provide the long-term funding to support the SMEs which are vital to Uganda's economic development. This has enabled businesses across a number of sectors to expand, providing sustainable jobs and an income to hundreds of thousands of people throughout Uganda.

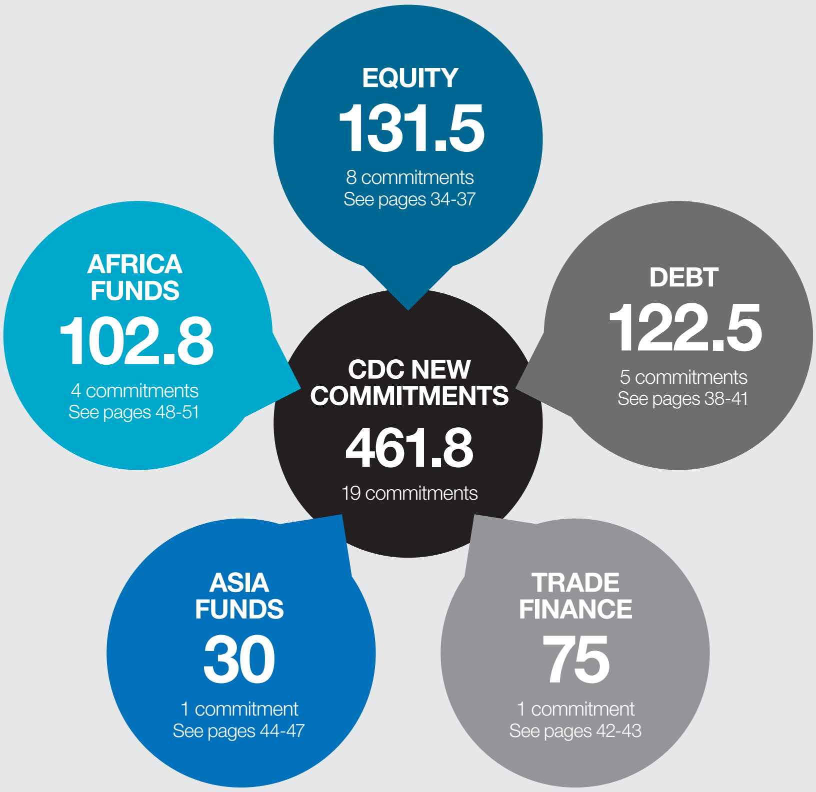
CDC's financial support has been coupled with wider support, for example, for corporate governance and technical assistance. A loan of US$10m from CDC in 2013 has helped to further strengthen the bank's lending capability.

Investment activity in 2014

CDC makes new investment commitments solely to businesses in Africa and South Asia, regions that include some of the world's hardest investment environments.

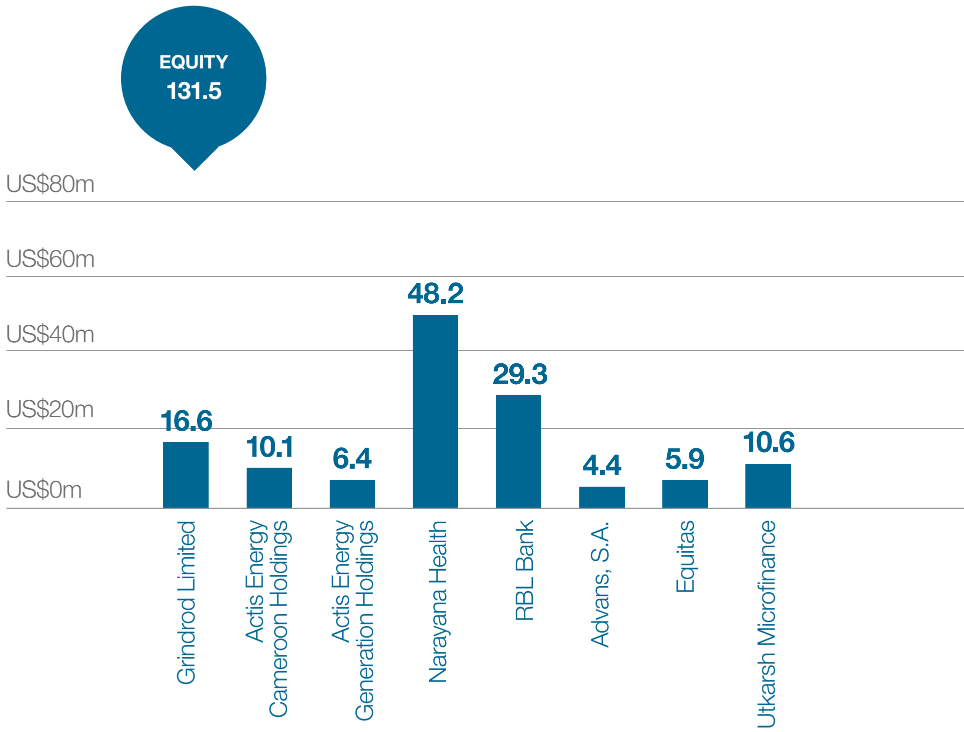
New commitments in 2014 by financial instruments

US$m

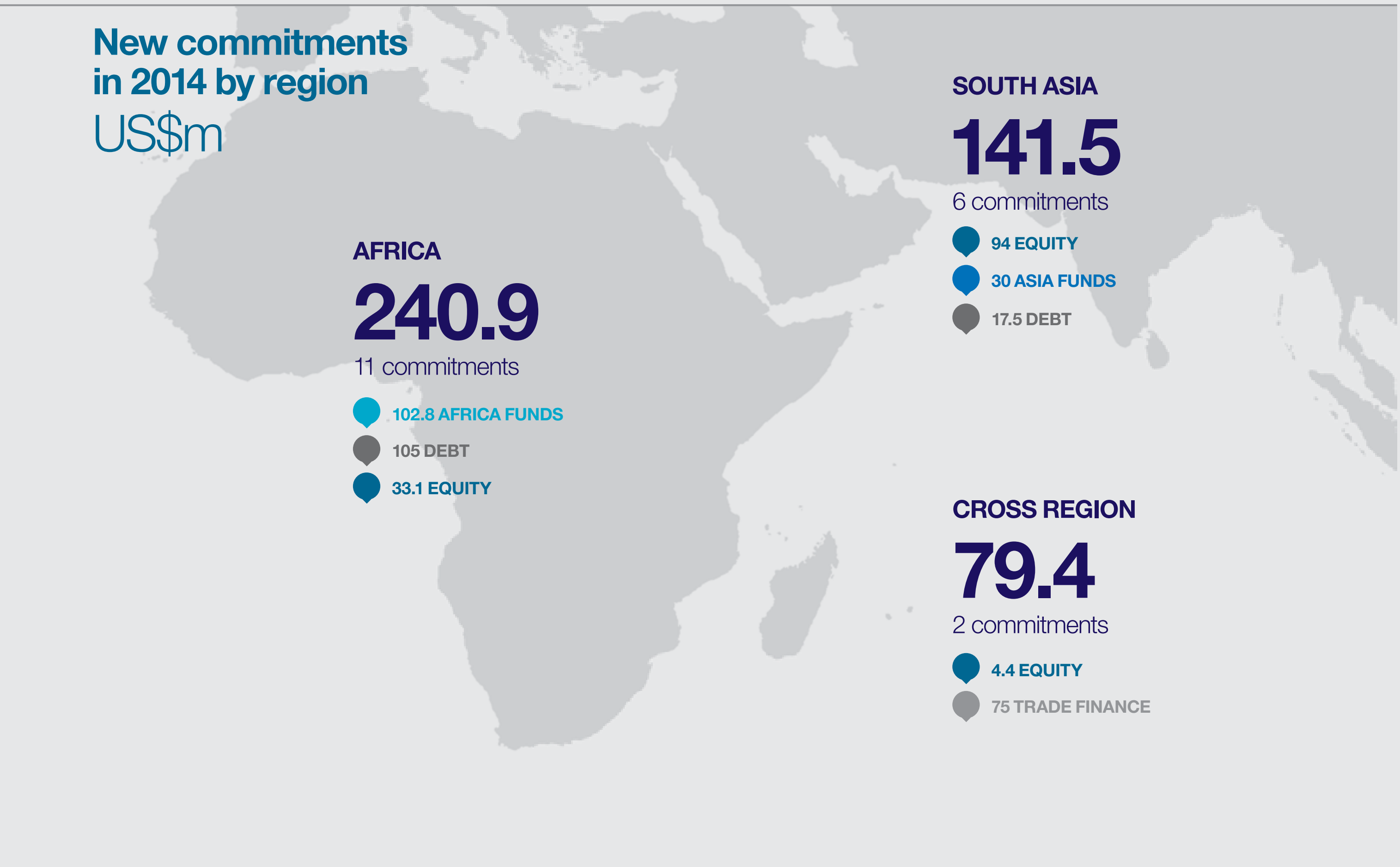


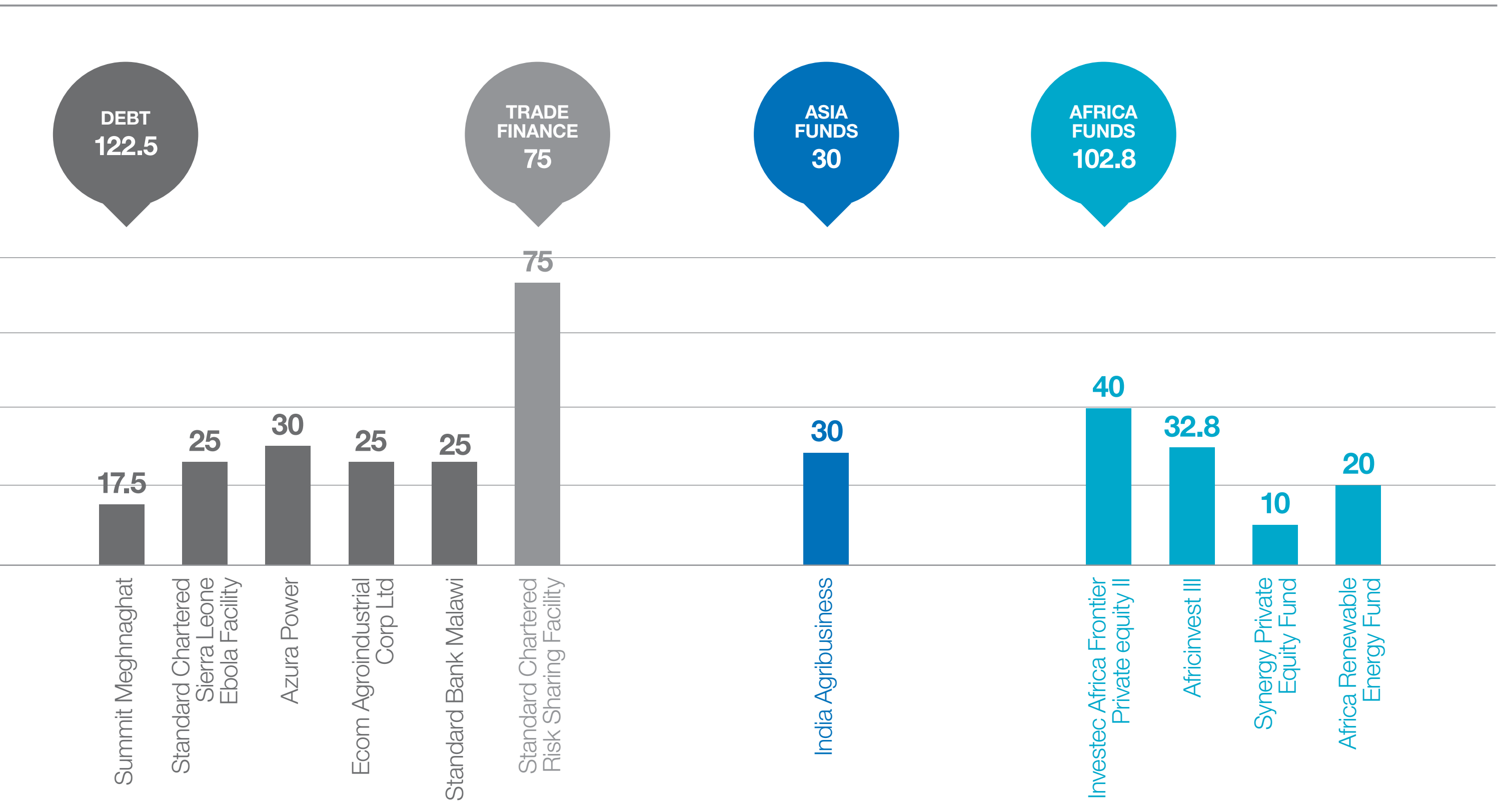
New investment commitments in 2014

US$m



New commitments in 2014 by region
US$m





Equity

Investing equity directly allows CDC to play an active role in **helping businesses in challenging environments** that need long-term partners.

We aim to combine the best of the DFI approach of providing long-term capital with the best of the private equity approach of growing businesses and creating value.

Moreover, CDC has designed and implemented investment processes that are similar to those of private equity to allow rapid decision making without compromising on the quality of due diligence and commercial judgement.

CDC has been investing equity directly since 2012, and currently has 16 investments with a value of US$306m. These are spread across CDC's focus sectors of agribusiness, construction, education, financial institutions, healthcare, infrastructure and manufacturing.

In 2014, CDC made eight new equity commitments, totalling US$131.5m.

Total new commitments, 2014

US$131.5m

1 Grindrod: Infrastructure/Southern Africa

US$16.6m

2 Kribi and Dibamba: Infrastructure/Cameroon

US$6.4m

3 Eneo: Infrastructure/Cameroon

US$10.1m

4 Narayana Health: Healthcare/India

US$48.2m

5 The RBL Bank: Financial institutions/India

US$29.3m

6 Advans: Microfinance/Multiple countries

US$4.4m

7 Equitas: Microfinance/India

US$5.9m

8 Utkarsh Microfinance: Microfinance/India

US$10.6m

Equity new commitments

Healthcare

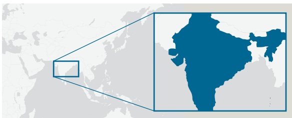
Narayana Health

India

Invested

US$48.2m

Geography



Narayana Health is a multi-speciality healthcare provider in India founded by the renowned cardiac surgeon Dr Devi Shetty.

It runs a chain of hospitals across India providing affordable, high-quality health care, with a particular focus on cardiac, cancer and other super-speciality tertiary care treatment.

Narayana was founded in 2000 by Dr Shetty and has grown from a cardiac care provider in Bangalore to become India's third-largest hospital chain, with 29 hospitals in 17 Indian cities.

Narayana currently employs over 12,500 people and undertakes more than 13,500 cardiac surgeries every year, accounting for 10 per cent of the national figure. The company treats over 200,000 inpatients and 1.5 million outpatients each year. Over half of Narayana's patients are from low-income groups and received healthcare as free or subsidised patients.

The US$48.2m investment from CDC will help the company build or expand hospitals in cities such as Kolkata, Lucknow, Bhubaneshwar and Bangalore. The coming expansion is expected to create at least 8,000 additional jobs.

Infrastructure

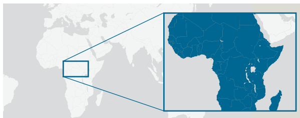
Grindrod Limited

Pan-Africa

Invested

US$16.6m

Geography



Regional trade has an important role to play in long-term growth, especially since many African economies are not yet large enough to build a satisfactory internal market.

Yet intra-African trade levels today are very low, representing only 12 per cent of Africa's overall trade, compared to 52 per cent in Asia and 26 per cent in Latin America[1]. This is compounded by under-developed transport infrastructure.

In sub-Saharan Africa, operating costs for railway transport services are three to ten times higher than the operating costs of railways in Russia, China or the United States[2] and container handling charges can be more than double the international standard rate[3].

To help develop and improve transport infrastructure across sub-Saharan Africa, CDC entered into a strategic partnership with Grindrod Limited, an integrated logistics company. Grindrod builds shipping terminals, railways and roads, which reduce transport costs, increase cross-border flows of goods and push forward the economic and regional integration agenda. The construction phase of these projects creates large numbers of jobs.

Alongside the strategic partnership, CDC has invested US$16.6m in Grindrod, providing finance for the company's current project development pipeline, which includes ports in Mozambique and South Africa and a 590km freight railway between Zambia and Angola.

[1] International Trade Center, EcoBank 2013
[2] SSATP Africa Transport Policy Program, March 2013, "Framework for Improving Railway Sector Performance in sub-Saharan Africa"
[3] Mundy, Michael, and Andrew Penfold, 2008, "Beyond the Bottlenecks: Ports in sub-Saharan Africa".

Equity portfolio management

Education

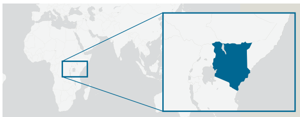
Bridge International Academies

Kenya

Invested in 2013

US$6m

Geography



"We are proud of our achievements to date, but eager to do more. There are still millions of children who are not getting the education they deserve. Every child is filled with so much potential. At Bridge, we want to give every child on earth the opportunity to fulfil that potential – and democratise their right to succeed."

Jay Kimmelman,
Co-Founder and CEO, Bridge International Academies

Currently, there are approximately 2.7 billion people living on less than US$2 a day. In their communities, there is a huge gap between the education offered and the needs of the population, with many children who manage to complete primary school lacking basic literacy and numeracy skills. Many families are actively searching for a better academic alternative.

In 2014, Bridge International Academies opened 146 new schools, bringing the low-cost school chain's total to 359 academies. With 112,000 pupils admitted, approximately one out of every 100 pre-primary and primary-aged children in Kenya now attends Bridge International Academies.

The Kenyan company, which opened its first academy in 2009, brings high-quality education to families living below the international poverty line of US$2 a day per person. The average Bridge family lives on just US$1.60 a day per person.

Since day one, Bridge has seen impressive results. Bridge pupils score an average of 35 per cent higher on core reading skills and 19 per cent higher in maths than their peers in neighbouring schools, based on USAID-designed exams administered by an independent monitoring and evaluation organisation. Meanwhile, economies of scale enable Bridge to deliver affordable education, with parents paying an average of just over US$6 a month.

The growth that Bridge has seen since CDC's investment has also meant an increase in numbers employed by the company. Bridge now employs 5,300 people directly, mainly women from the bottom 40 per cent of income distribution. It also indirectly provides work for thousands more in its supply chains.

Bridge International Academies plans to reach an additional 150 communities in Kenya in 2015, as well as expanding internationally to Uganda, Nigeria, and India so that more families living in poverty can benefit. Bridge, which currently offers three years of early childhood education and seven years of primary education (Classes 1-7) in Kenya, will add Class 8 in 2015, with Bridge pupils sitting the Kenyan Certificate of Primary Education for the first time in November 2015.

Trade/manufacturing

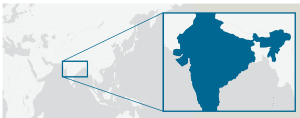
Jabong

India

Invested in 2013

€20m

Geography



We warmly welcome Jabong as our first India-based company member. India is a key sourcing country for many of our members and we are working with them to drive positive change for workers in a number of sectors including garments, sandstone and costume jewellery. Jabong joins at an exciting time; we have recently appointed an India-based team and our programme work is taking shape on the ground. We look forward to supporting Jabong in its ethical trade work and to the insights it will bring about operating in the Indian retail environment.

Peter McAllister, ETI Director

In May 2014, with significant support from CDC, Jabong become the first India-based company to join the Ethical Trading Initiative (ETI). The company is a leading Indian online clothing company into which CDC invested €20m in 2013. Jabong buys products from more than 1,900 local suppliers which employ, directly or indirectly, thousands of workers.

The management team at the business is committed to using its buying power to lead the way to better working conditions across the company's supply chain. CDC was invited to invest because of our experience in India and track record of working to improve business standards and working conditions. We were delighted to find such a progressive management team with the commitment to work with us. Joining ETI highlights how serious Jabong is about upholding labour rights standards and principles within its supply chain.

ETI is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights in global supply chains. ETI has more than 80 company members including international retailers, luxury fashion labels, supermarkets and a wide variety of suppliers. Its member companies adopt the ETI Base Code, which is an internationally recognised code of labour practice.

With CDC's support, Jabong has developed a Code of Conduct to protect the rights of supply chain workers based on ETI's Base Code. In an eight-month period, 750 of Jabong's 1,900 suppliers have signed up to the code. Jabong has already inspected over 100 of its suppliers and put in place corrective action plans with 20 of these.

Debt

Debt can make a strong contribution to CDC achieving its development impact objectives. It allows us to provide patient capital in markets where exits are difficult, participate in infrastructure project finance and invest in businesses where owners are unwilling to give up equity.

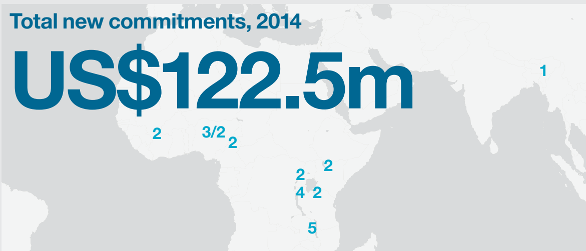
Debt was reintroduced to CDC's investment strategy in 2012, reflecting our desire to have greater flexibility of investment options and a more diversified portfolio from a risk, maturity and liquidity perspective.

We have taken a progressive approach to building our debt execution capacity, starting with a partnership-driven co-financing approach. In the last year, significant progress has been made in formalising essential processes and procedures and developing key tools such as rating and pricing models.

There is strong demand for long-term debt in CDC's target geographies. The aggregate domestic credit stock would need to increase by US$152bn in CDC's category A and B countries[1] to bring them to the average level of category C countries[1]. CDC's offer of long-term foreign currency loans and guarantees at commercial terms is therefore very attractive, particularly since the involvement of DFIs can have a 'halo effect' in terms of reducing the probability of adverse political impacts.

Total new commitments, 2014

US$122.5m



1 **Summit Meghnaghat:** Infrastructure/Bangladesh

US$17.5m

2 **Standard Chartered Sierra Leone Ebola Facility:** Financial institutions/Sierra Leone

US$25m

3 **Azura Power:** Infrastructure/Nigeria

US$30m

4 **Ecom Agroindustrial Corp Ltd:** Agribusiness/Pan-Africa

US$25m

5 **Standard Bank Malawi:** Financial institution/Malawi

US$25m

[1] CDC categories countries from A-D, with those categorised 'A' being the most difficult and capital-starved markets. For information about CDC's country classification please visit www.cdcgroup.com/how-we-do-it/investment_strategy

Debt
new commitments

Agribusiness and trade

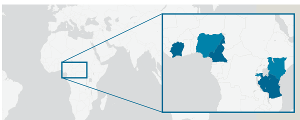
Ecom Agroindustrial

Côte d'Ivoire, Cameroon, Rwanda, Kenya, Tanzania and Nigeria

Committed

US$25m

Geography



CDC has committed US$25m to a debt facility for Ecom Agroindustrial, one of the world's largest traders and processors of coffee, cocoa and cotton.

The facility, which totals US$75m, includes FMO and DEG, the DFIs of the Netherlands and Germany, respectively.

CDC's funding will be used to finance inventories and suppliers in Ecom's African operations, supporting long-term relationships with smallholder producers in emerging markets. The investment provides funding to a high priority sector in some of Africa's poorer countries, namely Côte d'Ivoire, Cameroon, Rwanda, Kenya, Tanzania and Nigeria.

Ecom's business model spans direct relationships and interaction with smallholder farmers, through to selling directly to large multinational buyers. The company buys at the farm gate and invests in rural logistics and processing assets such as buying stations, coffee mills, cleaning and bagging facilities and warehouses. This model sets Ecom apart from more traditional trading companies that buy at the port, rely on middlemen and focus on opportunistic trading.

Ecom's close collaboration with smallholder farmers focuses on improving production practices, increasing yields and enhancing traceability and certification of its products. It has developed long-term relationships with farmers and cooperatives through its Sustainable Management Services initiative. The initiative supports farmers to enhance yields and quality through training, improved access to inputs and certification programmes such as Rainforest Alliance, Utz, Organic and Fair Trade. These programmes support Ecom's business but also improve farmer incomes and livelihoods.

Infrastructure

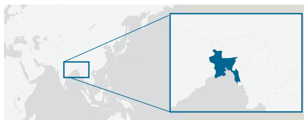
Summit Meghnaghat

Bangladesh

Invested

US$17.5m

Geography



Bangladesh suffers from a severe power shortage.

Currently, the greater Dhaka area experiences multiple power cuts per day and rural areas are subject to vast load shedding. World Bank data indicates annual per capita electricity consumption of 279kWh, compared to 616kWh in India, 457kWh in Pakistan and 449kWh in Sri Lanka. Just 60 per cent of all Bangladeshis have access to the grid, and Bangladesh remains one of the most difficult places for a business to obtain electricity.

The Government of Bangladesh has a target to provide electricity to all Bangladeshi people by 2021. Energy is seen as one of the main drivers for economic growth, and reliable power is key to achieve the projected annual GDP growth of over 6 per cent. To achieve this target, private sector participation in the power sector is essential.

One issue preventing the private sector from developing power plants is a lack of long-term finance. Without lenders who are willing to provide debt on the right terms, projects do not reach financial close and construction cannot begin. To address this issue CDC has committed US$20m to a US$120m long-term finance facility for the Summit Meghnaghat Power Company. The company will develop, construct and operate a 335MW combined cycle power plant near Dhaka.

The facility was wholly-funded by DFIs, including the lead lender, DEG of Germany. By providing long-term hard currency financing in a market with an underdeveloped financial sector, the DFI group is playing a major enabling role in the project. It will be the largest project financing by international investors in Bangladesh.

The Summit Meghnaghat project fits into the long-term energy plan for Bangladesh given its highly efficient combined cycle technology and dual fuel option which would allow power to be generated even in the event of gas supply constraints in future.

During the construction phase of the power plant Bangladeshi companies will provide up to 300 local workers and during the operational phase up to 100 local workers will be employed. The indirect employment benefit of adding 350MWs to the grid will be substantial.

Debt
portfolio management

Manufacturing

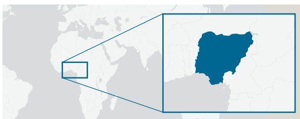
Indorama Eleme Petrochemicals Company

Nigeria

Committed in 2013

US$40m

Geography



Ensuring good environmental and social standards is an important part of how CDC and other DFI investors add value beyond providing capital.

For example, large construction projects may have inherent safety risks that can be reduced through the application of international best practice.

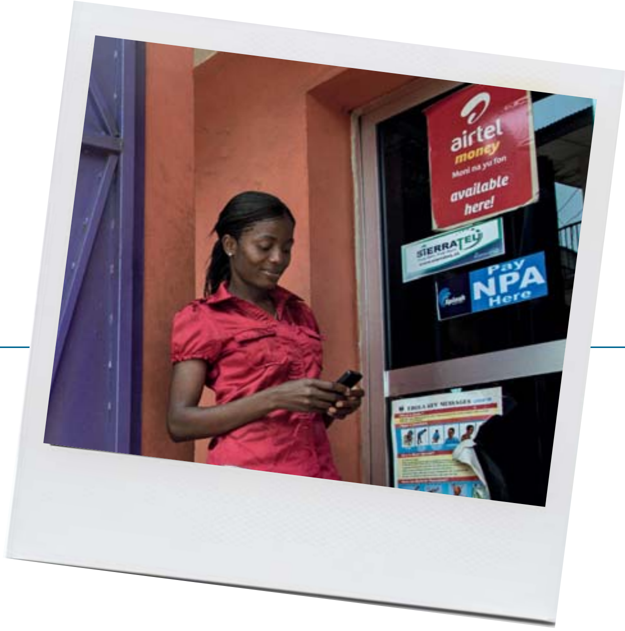
In 2013, as part of DFI lenders, CDC provided a loan facility of US$40m to support the development of a new urea-based fertiliser plant by the Indorama Eleme Petrochemicals Company. The development will include the new fertiliser plant, a gas pipeline and jetty, all to be located near Port Harcourt in the Niger Delta. Due to the significant construction involved in the project, a strong environmental and social management plan was developed by a group of lenders, led by the IFC.

The fertiliser plant is now well into the construction phase, and the health and safety of all workers is a priority for management. For example, there are 315 employees currently working on the pipeline site in five clusters. Each cluster is staffed at all times with an environmental health and safety (EHS) officer and at least one first aider, with vehicles available at each cluster for quick transfer to local medical centres.

Before every shift, workers attend a ten minute toolbox meeting presented by an EHS officer that covers topics relevant to each of the tasks to be performed on that day. EHS training has been given to staff covering various activities including defensive driving, working at height, rigging, crane operations, scaffolding, safe use of tools and excavation safety awareness. As a result of the focus on EHS, by the end of 2014 and with over seven million hours worked, the project had experienced zero fatalities and just one road traffic accident (in a country where road safety is very poor).

Once operational, the Indorama fertiliser plant will allow Nigeria, which is currently heavily dependent on imported fertiliser, to become self-sufficient and eventually a net exporter. As well as being a major job creator in the region, the investment will contribute to improved farm yields and agricultural productivity, which are critical to Nigeria's long-term food security.

At a local level, job creation is an important way in which the project shares benefits with the local community. Across all sites, the project is providing employment to over 4,000 people. Contractors, who employ the majority of workers, have signed memorandums of understanding with their respective host communities, agreeing to recruit local people where possible. Workers also receive a number of allowances over and above their basic salary covering items including housing, transportation, education, entertainment and utilities.



Telecommunications

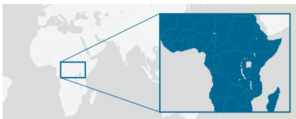
Bharti Airtel

Pan-Africa

Committed in 2013

€30m

Geography



In 2013, CDC provided €30m to Bharti Airtel Africa as part of a €205m debt facility agreed by a consortium of DFIs.

Bharti is one of the largest mobile phone operators in Africa, and pursues a high volume, low price business model which benefits low-income consumers, who are most price sensitive. The facility aims to help Bharti expand its telecommunications provision across its 17 operating countries in Africa, including some of the least developed states, and create 1,300 direct jobs.

According to the GSMA, the worldwide trade association for mobile phone operators, mobile phone users in sub-Saharan Africa spend a larger proportion of their income on mobile services than in other regions: an average of 15 per cent compared to the 3 to 5 per cent observed in other developing markets and the less than 1 per cent that is the average in the US and Europe. Where costs are declining, this is a direct result of increased competition, with an average of 3.8 operators per country and many more in some markets. With its low-cost model, Bharti Airtel Africa has often been at the forefront of price cuts.

Aside from consumer price reductions, the impact resulting from CDC's investment is expected to include:

- **Job creation:** Since CDC's investment, Bharti has already created 450 jobs in Africa, and is expected to add more as expansion progresses. The significant investment in infrastructure and technology will also result in the creation of many more indirect jobs in partner and supplier companies.
- **Improved telecoms infrastructure:** Bharti is upgrading telecoms infrastructure, including rolling out 3G in most of its markets. Since 2012, it has already connected a further 6.2m users to its network.

CDC's relationship with the company that is now Bharti Airtel Africa dates back to 1998, when CDC first invested in what was to become Celtel, a mobile telecommunications network founded by African entrepreneur Dr Mo Ibrahim. Celtel grew to cover 14 countries in Africa before it was sold to Kuwait-based Mobile Telecommunications Company in 2005, which later rebranded as 'Zain' and then sold its African assets in 2010 to Bharti Airtel.

Trade finance

Trade finance, which principally acts to mitigate payment risk between cross-border buyers and sellers of goods and services, has a strong development impact. It allows firms to use goods as collateral, rather than capital which can then be used to fund growth.

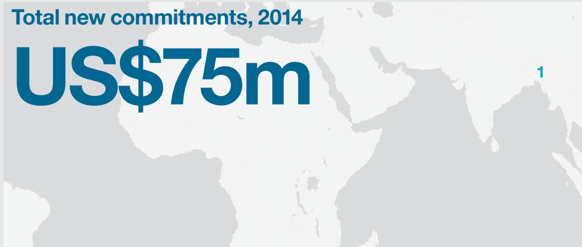
Trade is vital for corporates (including larger SMEs) to grow and create jobs – a 5 per cent increase in trade finance availability leads to a 2 per cent increase in production and jobs[1]. It also helps firms import strategically important goods such as fuel, food and medical supplies.

According to an Asian Development Bank (ADB) survey, the global unmet demand for trade finance is US$1.6tn, with US$425bn unmet in developing Asia alone (2013). The 106 banks surveyed indicated that without the ADB's trade finance programme, their own support to businesses would decline by at least 13 per cent across 18 countries of operation.

CDC's trade finance programme is focused on the poorer countries and excludes India and South Africa.

Total new commitments, 2014

US$75m



1 Standard Chartered Risk Sharing Facility:
Multiple sectors/Bangladesh and other countries

US$75m

[1] Asian Development Bank, Trade Finance Survey, 2013

Trade finance portfolio management

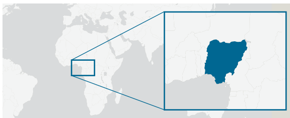
Multiple sectors

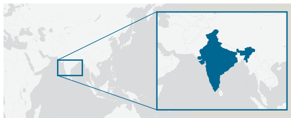
Standard Chartered Bank

Bangladesh and other countries

Invested in 2013	Invested in 2014
US$75m	US$75m

Geography





In May 2013, CDC and Standard Chartered Bank (SCB) signed a Master Risk Participation Agreement (MRPA) for up to US$50m, under which CDC automatically shares risk with SCB on private sector banks in eligible trade finance transactions.

The facility, which is designed to be used in relatively high-risk countries where commercial bank appetite is limited, reached full utilisation in September 2013. It was subsequently increased to US$75m in November 2013, and again to US$150m in 2014.

Since then, over 80 per cent of the businesses that have applied and received trade finance under the CDC-SCB agreement are located in Bangladesh.

The Bangladeshi economy depends largely on trade, which represents 54 per cent of GDP in the country (World Bank), so a functioning system of trade finance is essential. Bangladesh is a top-six user of the ADB's trade finance programme, demonstrating the level of local demand.

SCB plays a major role in the Bangladeshi finance system:

- Thirteen per cent of total Bangladesh trade is supported by SCB, with the majority through unfunded products, such as *Letters of Credits* and guarantees.
- The bank's loans support 37,400 jobs in Bangladesh, directly and indirectly.

Two examples of banks participating in the facility follow.

Pubali Bank, Bangladesh

Pubali Bank was founded by Bangladeshi entrepreneurs in 1959 and nationalised following independence in 1972 as per government policy. This was reversed in 1983 and since then, Pubali Bank has become the country's largest private commercial bank with 427 branches that employ over 7,000 people.

The trade finance products offered by Pubali Bank include letters of credit for import and export, packing credits for manufactured goods and documents against payment. To date, CDC and SCB have facilitated trade finance transactions at Pubali Bank totalling US$45m. One transaction provides for a manufacturing business to import Indian milled wheat, which is used in the production process of a wide variety of breads such as paratha and naan.

HFC Bank, Ghana

Applicants for trade finance in Ghana represent 10 per cent of the utilisation joint CDC-SCB facility, with HFC Bank among the banks that have made use of the facility. HFC was originally founded as a home finance investment company, but received its universal banking licence in 2003 and has since grown to become arguably the most diversified financial institution in Ghana.

HFC Bank is one of the leading providers of international trade services in Ghana, working with correspondent banks across a worldwide network. SCB, supported by CDC, has facilitated transactions totalling US$24m including, for example, helping a fuel company trade into Mali and Burkina Faso.

Asia Funds

In South Asia, CDC's fund investments are focused on India, Pakistan and Bangladesh. These three markets are very different. India has a well-developed yet highly cyclical private equity sector while Pakistan and Bangladesh are barely functioning.

In all three countries, however, private equity has an important role to play in helping growth and job creation and DFIs like CDC remain a crucial source of capital.

In India, the ratio of private equity investments to GDP is just 0.19 per cent, compared with 0.81 per cent in the UK and 1.23 per cent in the US[1]. Moreover, recent poor performance by funds in India means some investors are avoiding further capital commitments. After a peak of US$7.7bn in 2008, post-financial crisis fundraising for India has slowed down – with US$2.1bn raised in 2014 – against a figure of US$310.9bn globally.

CDC remains committed to supporting the private equity industry across South Asia, including in India. In the last five years, CDC has committed over US$460m to 15 funds across the region.

In the light of industry-wide performance issues, stemming from too much capital supporting inexperienced teams between 2008 and 2011, in 2014 CDC carried out a review of its South Asia fund portfolio. The purpose of the review was to identify underperforming funds that would benefit from focus and assistance and to identify the successful teams and strategies aligned to CDC's developmental objectives that should form the core of our future portfolio.

Why private equity?

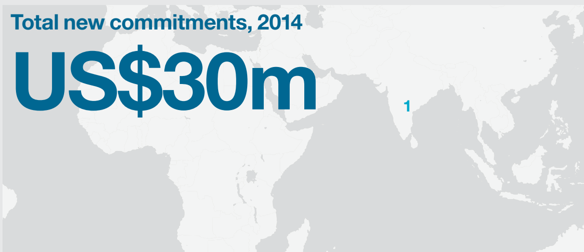
Private equity investors offer more than financial backing. By investing risk capital, they become partners in a firm's growth, providing technical expertise and networks, introducing international practices, encouraging operational advances and improving environmental, social and business integrity standards. It is a form of capital that allows business to expand, create jobs and ultimately underpin growth in their economies.

By supporting the best private equity investors through investing in their funds, CDC can support far more businesses and fund more growth and jobs than we would be able to if we only invested directly.

[1] EMPEA

Total new commitments, 2014

US$30m



1 India Agribusiness Fund II: Agribusiness/India

US$30m

Asia Funds new commitment

Agribusiness

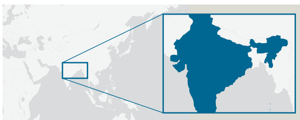
Rabo Equity India Agribusiness Fund II

India

Committed

US$30m

Geography



With estimated total food consumption valued at US$250bn (2013), India is already the third largest consumer of food in the world. Its current requirement is expected to double by 2030[2] and there are serious concerns about how supply will meet this demand.

In 2014, CDC made a new US$30m commitment to a fund focused on India's food and agribusiness sector. The Rabo Equity India Agribusiness Fund II will invest in growing businesses across the agribusiness industry, such as agricultural input, food processing, rural retail and cold chain storage and distribution companies.

With CDC as an anchor investor alongside Rabobank, an international financial services company, the fund aims to raise a total of up to US$150m. Its predecessor fund, India Agribusiness Fund I, which launched in 2009, was the first dedicated agribusiness fund in India and remains one of the few in the Indian market. To date, it has made 10 investments in businesses that provide direct jobs for almost 5,000 people.

> Agribusiness is a key sector for CDC, in India and globally, because of its job creating potential. Investments to modernise and develop food and agriculture businesses are urgently needed and will have a direct impact on reducing poverty.
>
> We expect the experienced team at Rabo Equity to have a positive effect on developing the food and agri sector in India and we hope to see a significant share of their investment benefiting lower income states in India where a large number of agribusinesses are based.
>
> This fund is being raised in exceptionally difficult fundraising conditions for Indian private equity. Without CDC and Rabobank's investment the fund would not exist, and we are pleased to see other investors following our lead and making commitments at first close.
>
> **Alagappan Murugappan,**
> **Managing Director, Asia Funds, CDC**

India's yield per hectare for wheat is
23%
below global average
(World Bank, 2013)

[2] India as an agricultural and high value food powerhouse: A new vision for 2030', Confederation of Indian Industry and McKinsey, 2013.

Asia Funds portfolio management

Trade

Agora Supermarket

Bangladesh

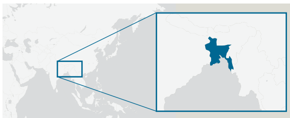
CDC fund commitment

US$10m

CDC capital invested by the Fund

US$661,000

Geography



> Now I'm happy, I'm buying more land and my business is expanding. With Agora's help, I can do training in packaging, chemicals, and minimising post-harvest losses as well as how to do business with the retail sector. I have big dreams. I'm not thinking about myself but my family and community.
>
> **Mr Basher, Farmer and supplier to Agora Supermarkets**

In the last decade, economic growth in Bangladesh has averaged around 6 per cent and poverty has dropped by nearly a third. Officially, unemployment is around 5 per cent, but its rate of underemployment is much higher, around 40 per cent, with many people only working a few hours a week.

Research in other developing countries indicates that retail is typically a sector that creates direct jobs and also has a strong multiplier effect on employment in the supply chain. In South Africa, for example, the 'Retail and Wholesale trade' sector is ranked six out of 46 for its employment multiplier effect[1].

Although the organised, formal retail industry in Bangladesh is still small, CDC has backed the first supermarket chain in Bangladesh, which has been trading since 2001. Since then, Agora Supermarkets has expanded rapidly, and CDC's capital has been part of this growth story since 2010. Working through a local fund manager, Brummer and Partners, CDC invested nearly US$700,000 in Agora Supermarkets between 2010 and 2014. Brummer and Partners manages the Frontier Fund, the first private equity fund set up in Bangladesh, which CDC backed with a US$10m commitment.

In a nascent sector, Agora Supermarkets is leading the way and has established 13 stores. Demand for supermarket goods and food is rapidly expanding in Bangladesh and Agora has plans to build 50 new outlets in the coming years in other towns and cities in Bangladesh.

Successful businesses such as Agora Supermarkets are crucial for creating jobs. The number of employees at Agora has increased to 750 with around 3,500 in the supply chain, including farmers who work on the outskirts of Dhaka.

Mr Basher is one such farmer who earns a steady income through selling his vegetables to Agora Supermarkets. Before doing business with Agora, Mr Basher used to buy vegetables from the wholesale market and sell them on. Today, he owns 45 acres of farmland where he can grow his own vegetables – cabbages, broccoli and cauliflower – which he sells to Agora Supermarkets and other large retailers. As a result, his standard of living has improved and his children both attend an international school in Dhaka where they are benefiting from a good quality education.

[1] Tregenna, F: Sectoral Labour-Intensity in South Africa, 2009, National Economic Development and Labour Council.

Agribusiness

National Collateral Management Services Limited

India

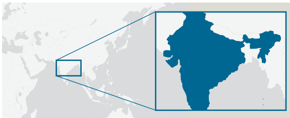
CDC fund commitment

US$10m

CDC capital invested by the Fund

US$936,000

Geography



Data from the Associated Chambers of Commerce and Industry of India shows that around 40 per cent of wheat in India is currently wasted due to a lack of adequate storage. The problem is not confined to wheat, with around 25 per cent of all crops perishing post-harvest.

The problem of crop storage is one that National Collateral Management Services Limited (NCMSL), an Indian business, aims to tackle.

NCMSL offers services in agri-commodity warehousing, procurement, collateral management and other services. It was founded in 2005, and today operates a network of around 400 warehouses, 1,700 storage facilities, nine certification labs and 650 automatic weather stations in 14 states.

The firm has received investment from the Rabo India Agribusiness Fund I, which CDC backed in 2009 with a US$10m commitment. The capital provided by the Fund has been essential to the growth of NCMSL.

Helping small farmers

Rather than seeing his crops go to waste, Mr Maliram previously had to sell quickly to middlemen, at half the market rate. Storing his grain at an NCMSL warehouse allows Mr Maliram to get a fair price and also provides him with a certificate he can use as loan collateral. Using this NCMSL certification Mr Maliram obtained a loan to buy more cows and buffalo, as well as installing solar power on his farm. The additional assets have improved his standard of living. To date, NCMSL has helped nearly five million farmers like Mr Maliram.

Africa Funds

Africa's momentum for growth continues, as the continent's economies continue to diversify away from resources and focus on the potential offered by a young and growing class of consumers. Yet, gaps in Africa's growth story remain. Tax revenues are considerably lower than in developed markets, constraining governments' ability to build services and infrastructure, emphasising the critical role the private sector can play.

Against this backdrop, private equity is a key asset class for investors to deploy capital into Africa in a sustainable, responsible and safe manner. The various fund types – infrastructure, real estate, SME and generalist – are a proven catalyst for developing the private sector and the principal route for funding high-growth businesses in these markets.

Business growth results from a combination of strategy, management and capital. In Africa, as well as lacking risk capital, many entrepreneurs struggle to find the right people to help them execute their strategy.

Private equity investors offer a combination of capital and expertise. As a partner in the business, funds will frequently help nurture and build-out the management team, introducing international best practice in areas such as financial management, energy efficiency or supply chain management. As well as encouraging growth, this develops the skills of the management team and improves the pool of talent in the market.

With a typical fund making around 10-15 investments, CDC's investments in private equity funds help distribute capital, skills and know-how across a far wider number of businesses than would be achieved by purely investing directly.

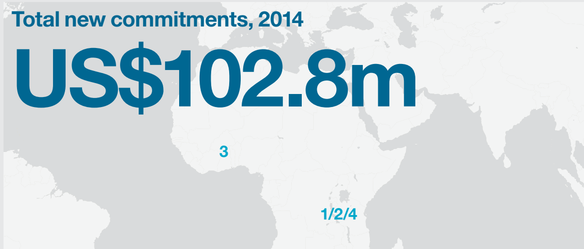
Having made our first fund commitment in Africa in 1994, CDC today remains the largest supporter of the industry. Our focus on environment, social and business integrity remains a core part of how CDC adds value and our 'Toolkit for Fund Managers' plays a key role in raising standards across the industry.

In spite of the much-vaunted Africa rising narrative, good teams still struggle to attract the capital needed to become viable and sustainable investors, especially those raising specialist funds or targeting smaller deal sizes. Across the market we will continue to back first-time teams, anchor new funds and play an active role throughout the investment cycle.

[1] EMPEA

Total new commitments, 2014

US$102.8m



1 Investec Africa Frontier Private Equity II: Multiple sectors/Pan-Africa

US$40m

2 Africinvest III: Multiple sectors/Pan-Africa

US$32.8m

3 Synergy Private Equity Fund: Multiple sectors/West Africa

US$10m

4 Africa Renewable Energy Fund: Infrastructure/Pan-Africa

US$20m

Africa Funds new commitments

Multiple sectors

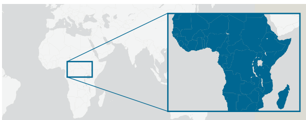
Investec

Pan-Africa

Committed

US$40m

Geography



The Investec Africa Private Equity Fund II has a pan-African mandate, but will place particular emphasis on opportunities in less-established markets such as Mozambique and Zimbabwe.

The fund will focus on companies operating in sectors that benefit directly or indirectly from increasing levels of consumer spending, such as retailers and fast-moving consumer goods. The manager has previously invested in Angola, Cameroon, Côte d'Ivoire, Malawi, Mozambique, Zambia, and Zimbabwe. These are markets where few private equity managers have the capability or appetite to invest. Backing the fund will allow CDC to increase the amount of capital it provides to businesses in these priority markets.

When the Fund invests in companies based in more established markets, its investment strategy is often focused on helping these companies to expand to less developed countries across the region. For example, when it invested in IHS, a telecoms tower business, the majority of the company's operations were centred in Nigeria. However, since investment, Investec has helped the company to expand to the less developed markets of Côte d'Ivoire, Cameroon, and South Sudan.

CDC's commitment, alongside backing from the DFIs of the Netherlands (FMO) and Germany (DEG), helped the company reach a first close at US$214m. It is expected to make its first investment in 2015.

Multiple sectors (SME focus)

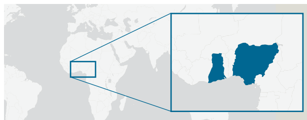
Synergy

Nigeria and Ghana

Committed

US$10m

Geography



Synergy Private Equity Fund is the first fund to be raised by Synergy Managers, a new team based in Lagos and Accra.

The fund is aiming to raise US$75m to make investments in small and mid-cap companies in sectors including manufacturing, agro-processing, fast-moving consumer goods, non-bank financial services, ICT and energy services in Nigeria and Ghana.

The Central Bank of Nigeria estimates that Nigeria has about eight million SMEs spread across most of the economic sectors, employing about 42.4m people and contributing about 46.5 per cent of nominal GDP (2012), while the IFC estimates that around 96 per cent of Nigerian businesses are SMEs. While there has been some improvement, most SMEs still report access to finance as a key constraint and rely on informal financing. The majority of bank loans are issued to large corporates and governments, with less than 1 per cent of total loans disbursed to SMEs.

In Ghana, SMEs provide about 85 per cent of manufacturing jobs, contribute about 50 per cent of Ghana's GDP (2012) and account for around 90 per cent of businesses. Ghanaian SMEs are mostly family-owned and in the past were typically small and fragmented due to a lack of managerial capacity and patient capital. Access to capital remains a constraint – banks typically focus on large corporates and multinationals – and any capital available for SMEs is typically short-term and expensive, with interest rates exceeding 20 per cent.

CDC's commitment of US$10m will make it the biggest investor in the fund and has allowed Synergy to raise further capital from other investors.

CDC has a long history of backing first time managers like Synergy, and played a key role in helping the team shape its strategy and develop the right policies and structure for the fund and manager. As an investor, CDC will help nurture and strengthen the team and continue to provide support, advice and guidance, especially on environmental, social and business integrity matters.

Africa Funds portfolio management

Manufacturing

Vlisco

Côte d'Ivoire, Ghana, Togo, Benin, Central African Republic and the Democratic Republic of Congo

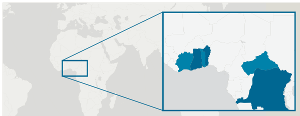
3,100
farmers are now engaged in cultivating cotton to meet Vlisco's demand

Vlisco's business in West Africa, through its two factories in Côte d'Ivoire and Ghana, has generated
US$49m
in value added to the local economy

CDC fund commitment
US$350m

CDC capital invested by the fund
US$19.6m

Geography



In 2007, a study by the OECD observed that West Africa's cotton production is generally under-exploited with most of the fibre produced being exported to the international market[1].

In Africa's francophone countries, for example, more than 90 per cent of the cotton produced was exported in the form of fibres, and processed elsewhere rather than being used by the local textile industry.

Vlisco is a textile business operating across West Africa that does the opposite and makes a virtue of using local manufacturing facilities. The company designs, manufactures and distributes 70m yards of branded fabrics annually through its operations and retail presence in West and Central Africa. It directly employs 1,700 people in West Africa and helps to create thousands of additional indirect jobs for salespeople, shopkeepers and tailors.

In 2010, the company was acquired by the Actis Emerging Markets Fund 3, which CDC has backed with a US$350m commitment. Actis has a focus on integrating environmental, social and governance factors into all of its investment decisions. The fund manager has worked closely with Vlisco's management team to accelerate the development and implementation of an environmental and social strategy.

As part of this strategy, Vlisco placed an increasing focus on the localisation of its supply chains and it now sources over 40 per cent of the fabric for its Ghana and Côte d'Ivoire factories – a total of some 18m yards – from Africa. Vlisco has also been sourcing items for its ready-to-wear collection from small workshops in Côte d'Ivoire and Ghana, which typically employ 20 to 40 people.

Vlisco's activities in West Africa, through its two factories in Côte d'Ivoire and Ghana, have created 19,400 indirect jobs through its supply chain[2].

[1] Cotton in West Africa – The Economic and Social Stakes, The Development Dimension series, OECD, Paris.
[2] Socio-economic impact of Vlisco's grey cloth sourcing in Western Africa, Steward Redqueen, June 2014.

Agribusiness

Kilombero Valley Teak Company Ltd

Tanzania

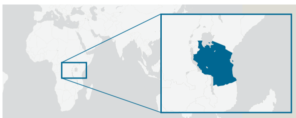
CDC fund commitment

US$50m

CDC capital invested by the fund

US$7.4m

Geography



Despite average GDP growth of between 5 and 7 per cent since 2000 (IMF, 2013), Tanzania still ranks 152 out of 187 countries on the Human Development Index (2013) with almost 68 per cent of the population living below US$1.25 a day (UNDP, 2013).

Tanzania's economy is still highly dependent on predominantly rain-fed agriculture that contributes an estimated 30 per cent to GDP and accounts for 64 per cent of all export earnings (Ministry of Finance, 2012).

Although the official unemployment rate is low at 3.1 per cent, the decent work deficit in rural areas is still a major concern with the majority (94 per cent) of the employed rural population of mainland Tanzania working part time and intermittently in the informal economy (FAO, 2013).

Kilombero Valley Teak Company (KVTC) is a teak plantation and saw-milling business located in the Morogoro Region of Southern Tanzania, one of the country's poorest areas. KVTC includes approximately 8,150 planted hectares and total landholdings of 28,000 hectares, as well as a saw-mill with a current production capacity of 35,000 cubic metres per year.

KVTC was set up by CDC in 1992 with the remit to develop social and environmentally responsible forestry and create a long-term export business. It was acquired by a CDC-backed fund, the Africa Sustainable Forestry Fund in 2011, and remains one of the most innovative forest management projects in Africa.

The business is managed by a well-established team consisting of a core of Tanzanian foresters and production engineers. In total the company employs approximately 300 members of staff and through local contractors has 350 people working permanently within the plantations on a daily basis. When harvesting and processing commences, several hundred further jobs are generated directly and indirectly to cover the peaks.

KVTC aims to bring a wide range of social, economic and environmental benefits to a remote area of Tanzania. At the heart of the project is the planting and sustainable harvesting of plantation teak, and the protection and management of over 20,000 hectares of native forests and wetlands and a wide range of wildlife and flora. The business has established an integrated processing plant, bringing much needed long-term employment and social development to the region.

In addition, KVTC also distributes seedlings to local communities to allow people to become small-scale cultivators. These communities form an integral part of the KVTC processing operation by establishing a sustainable and complementary out-grower industry. This ensures a constant income to participants over time.

With major shareholders including the Global Environment Fund and Finnish development funds, KVTC is dedicated to delivering high value teak, sustainable and ethically sourced.

DFID Impact Fund

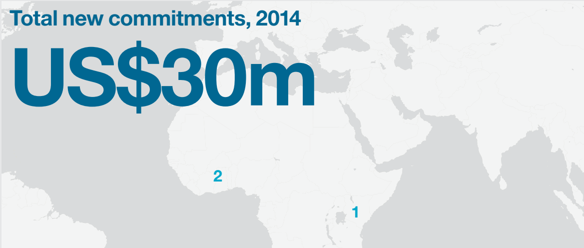
CDC established and has managed the DFID Impact Fund since 2012. The DFID Impact Fund is a £75m pool of capital that will be invested in funds that back businesses which serve poor people as consumers, producers, suppliers or employees.

The Fund will invest in low income and lower-middle income countries in sub-Saharan Africa and South Asia, and will target sectors with significant unmet needs. These include businesses providing access to food, housing, energy, water, sanitation, health, education, financial services and livelihoods for the poor. As these investments will have a higher risk profile the capital will have lower financial return expectations than CDC's core funds business.

In the short term, the Fund will catalyse third party capital into this challenging segment of the funds market by giving confidence to co-investors through, for example, careful due diligence of investees' teams, strategies and ability to generate financial returns and development impact. In the longer term, the Fund aims to catalyse further capital by understanding better and sharing the lessons on the financial viability and positive impact of the business models in which it ultimately invests.

Total new commitments, 2014

US$30m



1 **Novastar Ventures:** Multiple sectors/East Africa

US$15m

2 **Injaro Agricultural Capital Holdings:** Agribusiness/West Africa

US$15m

£75m
pool of capital

DFID Impact Fund new commitments

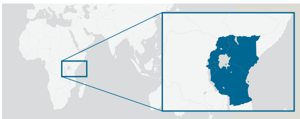
Multiple sectors

Novastar Ventures
East Africa

Committed

US$15m

Geography



In January 2014, the DFID Impact Fund made its first commitment of US$15m to Novastar Ventures, a venture capital fund focused on developing and growing early-stage businesses in East Africa.

It will target commercial businesses that meet basic needs among poor communities in East Africa, such as healthcare, energy, housing, education and sanitation.

Novastar's investments are expected to benefit more than two million low income people in East Africa over the next decade. The Fund has already invested in Bridge International Academies, a chain of low-cost primary schools in Kenya; and Sanergy, which offers hygienic sanitation through franchised sanitation centres in Nairobi's slums.

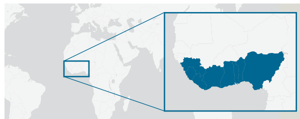
Agribusiness

Injaro
West Africa

Committed

US$15m

Geography



In August 2014, the DFID Impact Fund committed US$15m to a West African agriculture-focused investment fund, Injaro Agricultural Capital Holdings Ltd.

Injaro's mission is to make sustainable investments in SMEs operating along the agricultural value chain in West Africa, to alleviate poverty and improve food security. It aims to create economic opportunities for thousands of rural smallholder farmers and low income producers and consumers.

Injaro's investment strategy is focused on Ghana and Côte d'Ivoire but also includes Mali, Burkina Faso, Niger and Sierra Leone. The Fund will target businesses that increase the supply and affordability of better quality seeds for smallholder farmers, and those that link to small-holder farmers as part of their supply chain including capitalising on export opportunities.

Development performance

As the UK's development finance institution (DFI), development impact is an integral part of CDC's mission.

Achieving development impact

In 2012, CDC decided to focus the impact part of our mission on creating jobs, especially in countries where the private sector is weak and jobs are scarce.

While the broader development impact of our work, such as local taxes paid, more and better quality education and healthcare provided and more households with electricity is important, our core focus on job creation both inspires us in our mission and helps us clearly prioritise our finite resources.

Employment is the best and most sustainable path out of poverty. Two-thirds of those of working age in Africa and South Asia lack formal jobs. Population growth will only exacerbate the problem over the next decade. Getting a good job not only transforms that person's life, it also transforms the lives of their family and dependents.

Directing capital towards CDC's vision of development impact

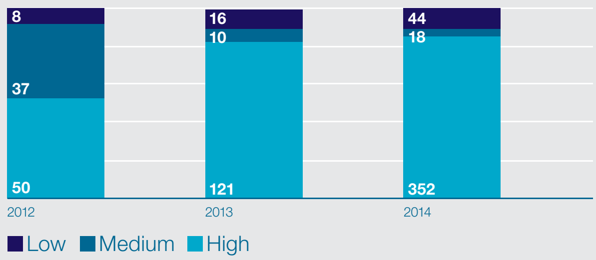
How do we focus on creating more jobs in the places of the world where they are most needed? We assess every potential CDC investment according to two criteria:

- The investment's propensity to create employment based on the business sector it operates in. Each business sector has been evaluated for its job creation potential using the best available economic statistics; and
- The difficulty of the country where the investment is made. Countries (and Indian states) have been graded based on income levels and investment difficulty.

These two criteria form our *Development Impact Grid*.[1] While necessarily somewhat crude, the simplicity and ease of interpretation of this grid is its greatest strength. It accelerates investment decision making and allows CDC to communicate clearly and unambiguously the kinds of investments it is interested in from an impact perspective.

In the first three years of this approach (2012-14), the proportion of our investments in high priority sectors has increased and was 85 per cent of total disbursed investments in 2014, up from 53 per cent in 2012.

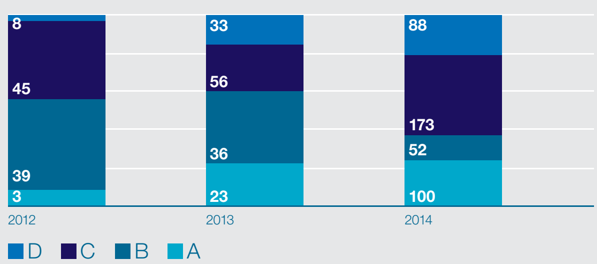
Fig.1 Proportion invested in high priority sectors with amounts in US$m



[1] For more information in CDC's Development Impact Grid please visit www.cdcgroup.com/how-we-do-it/

Over the same period, the proportion of our investments going to the poorest and most difficult countries (category 'A' countries) increased and reached 24 per cent of total investments in 2014, up from 3 per cent in 2012.

Fig.2 Proportion invested in most difficult countries with amounts in US$m



Measuring job creation: the challenge

Having chosen our investments for their potential to create jobs, we need to understand how many jobs are actually created over time. Answering that question is complex. In addition to direct hiring, academics agree that a growing business creates indirect jobs in three further ways:

- Companies in *supply chains* will hire more people as they win new orders from a growing business. The more a business buys in the country or region, the more indirect jobs are created.
- Employees in a business spend their *wages* in the local economy. This stimulates economic growth and jobs.
- Some of our investee businesses make it easier for others to *do business*. Providing roads, power and finance eliminate a critical bottlenecks to growth. With affordable, reliable services, new firms start up, operating costs fall and existing firms expand. All of this fuels further job creation.

Although more difficult to measure, these various paths of job creation can have more impact than the direct hiring a business does alone.

Our job creation methodology

CDC has developed a new methodology for calculating job creation with the help of Steward Redqueen, an external firm that advises on impact and sustainability.

The first step is to gather data from our portfolio companies. We recently started to collect that data each year, both from companies we invest in directly, and from those invested in through fund managers. Data collection requires time, accuracy and resources. To ensure it does not become a burden for our investee companies and a disincentive to taking capital from CDC, we limit collection to the following key data annually:

- Number of direct employees (in full time equivalents and by gender); and
- Sales, earnings, taxes and wages.

Companies do not usually calculate the indirect jobs they create. We calculate those effects by combining financial information on their business with certain macro-economic and employment data for the country where they operate.[2] This macro-economic data includes:

- Input-output tables by sector;
- Employment intensities by sector;
- Capital-to-output ratios by sector;
- Local sourcing factors by sector; and
- Energy production and consumption data.

By combining these two sources of data, we calculate the business' total (both direct and indirect) employment.

We then compare annual changes in each company's total employment to calculate the creation of net new jobs across the portfolio. Large changes result in more investigation in order to try to remove acquisition and disposal effects. Over time, we believe this will become a key development impact metric for CDC.

We have measured jobs solely for our portfolio in Africa and South Asia. Although we have 'legacy' investments beyond those geographies, we want to measure our impact in the regions where CDC is committed to investing for the long-term.

This year's analysis includes 388 businesses (in which we invested directly or through funds) for which we have data for both 2013 and 2014. This number represents 82 per cent of our investee businesses in Africa and South Asia. We did not have sufficient quality data from the remaining 18 per cent, and therefore believe the results understate CDC's impact. We continue to work with these companies with the aim of improving data collection and hope to move closer to full coverage over time.

[2] Because we know that sectoral employment intensity varies from country to country, the macro-economic data for Africa and South Asia has been broken down into sub-regions (North Africa, East Africa, Central Africa, West Africa, Southern Africa/Indian Ocean, South Asia) and major economies (Nigeria, Kenya, South Africa and India).

Development performance
continued

We recognise that the employment numbers figures calculated by this method are only an approximation of the impact CDC is having. The most important caveats are set out below.

First, the quality and timeliness of macro-economic data for countries in our geographies is improving but remains sub optimal. Second, every business has its own approach to managing workforce, wages and purchasing to achieve expansion. This means that some investments rapidly increase direct jobs, for example through new capital expenditure increasing manufacturing capacity; whereas other investments support business growth over many years with job creation spread over a longer period. Annual data can therefore be distorting and difficult to link directly to specific investments. Finally, we have been building our portfolio for a long time and some of the job creation we report will be from investments we made over the past ten years or even longer. Therefore it is not correct to link the amount of new investments in 2014 to job creation in the portfolio.

Despite these caveats, having consulted widely, we believe our methodology is the most appropriate and accurate that CDC can reasonably adopt at this time. Combining company-level and macro-economic data is a robust approach that allows us to approximate a good guide to the full range of annual jobs effects. We are constantly seeking ways to improve that methodology. Through the Let's Work Partnership[1], for example, we are working on other approaches to deepen our understanding of job creation.

We also intend over time to understand better who is getting new jobs (notably by gender and income group). CDC is gathering data as part of our commitment to back businesses providing better jobs, not just more jobs.

Full details on the current methodology will be published in a report later this year. CDC will welcome scrutiny and debate on this, to continue improving our understanding of the impacts we have.

Total jobs in CDC's portfolio

In 2014, 388 businesses in CDC's Africa and South Asia portfolio directly employed 533,000 workers, and contributed to the employment of 10.8 million people (those providing data, representing 82 per cent of the portfolio).

On average, each business directly employs some 1,400 workers but its economic footprint includes a further 28,000 people: a combination of the jobs indirectly supported through local purchasing, local spending of wages, and the supply of loans and electricity. In other words, for every directly employed worker, the company has an impact on a further 20 jobs. This average ratio or 'employment multiplier' is consistent with previous company-level case studies in developing countries (IFC *Jobs Study*, 2013).

[1] www.letswork.org

Fig.3 Total employment in 388 businesses, 2014

	Direct employment 2014	Indirect employment 2014	Total employment 2014
Africa	192,049	4,496,284	4,688,333
South Asia	340,952	6,290,983	6,631,935
Total	**533,001**	**10,787,267**	**11,320,268**

Across these 388 businesses, almost 1.3 million net new direct and indirect jobs were created in 2014. The total employment growth rate from 2013 to 2014 (over 12 per cent) is well ahead of regional employment growth rates (*World Employment and Social Outlook – Trends,* ILO, 2015).

Fig.4 highlights how important it is to measure indirect employment alongside direct employment to fully understand the jobs created by CDC's investee businesses. The number of indirect jobs created in the supply chain, as a result of increased wages, and as a result of improved infrastructure far exceeds the new direct jobs created.

We will continue to monitor and report on annual jobs-related data to understand better the key drivers of job creation, which will vary by region, by sector, by business type and by investment vehicle.

Tackling attribution

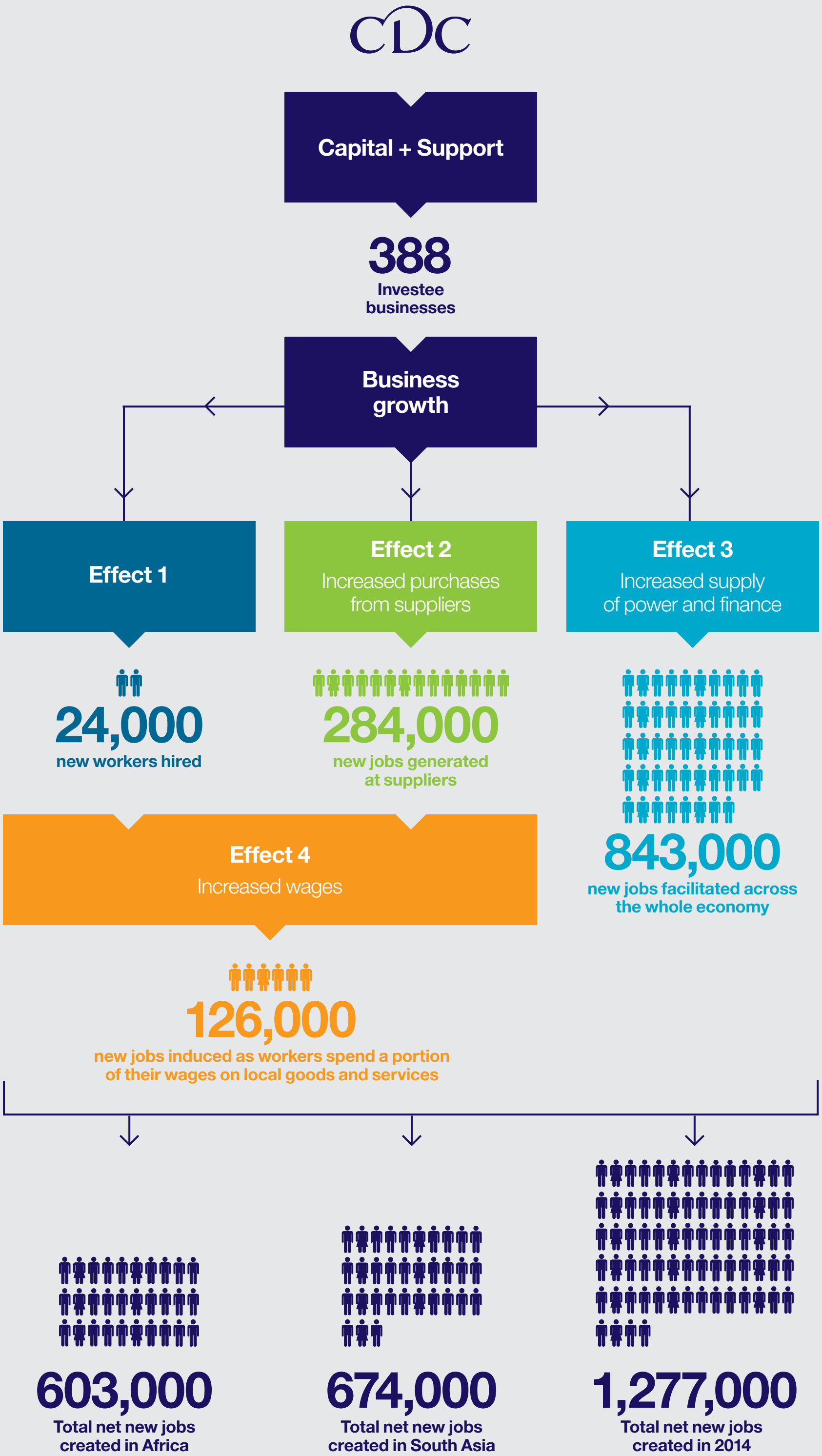
Our data tracks the number of jobs created by the businesses in which we invest. There is a further question. How much of this job creation can be attributed to CDC's role, which includes both capital and expertise? For the moment, we do not believe we can accurately answer that question.

This issue of 'attribution' is a difficult one. Job creation results from an accumulation of factors. The capital CDC provides is certainly one of them. So too are good management, an innovative strategy, productive workers, sector dynamics, an enabling business climate, sound governance and political stability. Even if we could isolate the amount of jobs created by capital, how many are attributable to CDC's capital alone? We often invest either alongside others and in different roles. Sometimes we lead and others follow, sometimes we invest contemporaneously, sometimes we follow others.

Debate about attribution continues – whether to do it at all and if so how to do it. Like the rest of the development community, we recognise this as an important issue. For now, though, an accepted approach to the issues simply does not exist. Together with others, we continue to debate the options and when a common approach is developed we will be sure to start using it.

For now, we do not want to take more credit than is our due. The employment numbers we have shown in this report, therefore, are 'gross' and we have not made a deduction for attribution.

Fig.4
Direct and indirect job creation in 388 businesses in Africa and South Asia, 2014



Development performance
continued

Evaluating our development impact

To supplement the knowledge CDC gains from collecting common data from our portfolio, CDC invests in studies that evaluate areas of development impact in much greater depth. From 2015, CDC is introducing a new approach to evaluations. Rather than evaluating individual investments that can be well covered through specific case studies, we will consider important common themes across our investment portfolio. The aim of these evaluations is to learn lessons and continually steer our investment strategy towards greater impact. We will begin the first such evaluations this year, and will report on our approach and progress to date in next year's annual review and on our website.

Broader development impacts

CDC does care about and measure broader development impact beyond jobs and how this can make a lasting difference to people's lives.

Increasing access to services

Providing access to power, telecommunications and finance does not only have a positive effect on employment, it also provides other socio-economic benefits: enabling better public services, better governance, and above all, personal empowerment.

Looking at our sample 388 businesses, we analysed the businesses in this group which have increased their provision of electricity, finance and telecommunications over the past three years. The figures opposite show that these businesses supplied over 40,000 gigawatt hours (GWh) to electricity customers, US$26bn of loans and advances to financial institution clients, and telecommunications for over 180 million subscribers in 2014.

In future, we will also report on key metrics across our other priority sectors: health, education, agribusiness, construction and manufacturing.

Building government revenues

To provide public services and good governance, governments in developing countries need to build their revenues through fair and efficient tax collection. Businesses should make important contributions to total tax revenue. We require our investee companies to pay the taxes owed in the countries in which they operate.

The tax contribution for the businesses in our African and South Asian portfolios in 2014 was US$2.34bn, up from US$2.14bn in 2013 and US$2.19bn in 2012. We expect tax contributions to vary annually, since they depend on a number of variables such as the proportion of start-up or pre-profit projects in the portfolio.

Mobilising private sector capital

CDC prioritises countries where private sector capital is scarce. In addition to our own capital, CDC can attract other investors from both the private sector and other DFIs. We track the amount of investment by private sector investors (excluding other DFIs) in funds subsequent to CDC's commitment.[1]

In 2014, CDC committed US$132m to fund managers, and this helped mobilise almost US$250m of third party private sector investments: meaning the private sector accounted for 65 per cent of total commitments. CDC invests in between six and 15 funds each year and the amount of capital that can be mobilised is not just driven by CDC's own efforts but also by the relative attractions of the specific funds to the international investing community.

Fig.5 Gross loans and advances (US$bn)

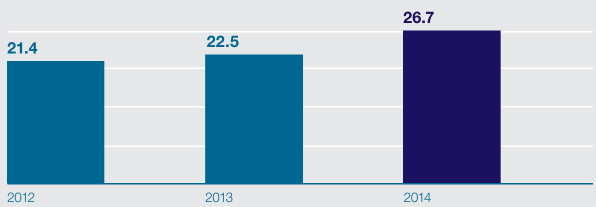


Fig.6 Tax contributions (US$bn)

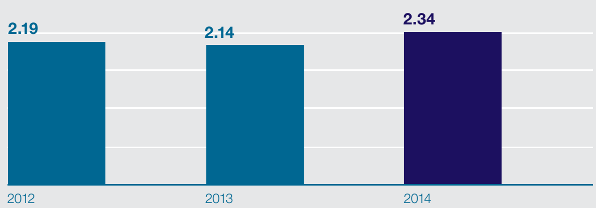
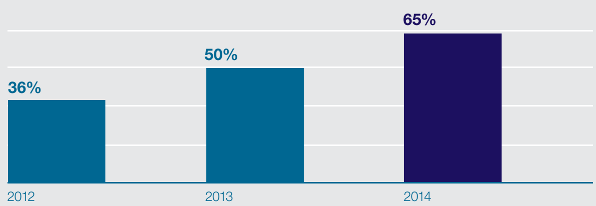


Fig.7 Mobilisation of third party private sector capital in CDC's funds business



[1] The mobilisation methodology agreed with DfID compares only CDC's proportion of public capital raised to the private capital mobilised, and applies a tapering factor to follow-on funds. This will be reviewed in due course and we will report any resulting changes in subsequent Annual Reviews.

Fig.8
Gigawatt hours produced

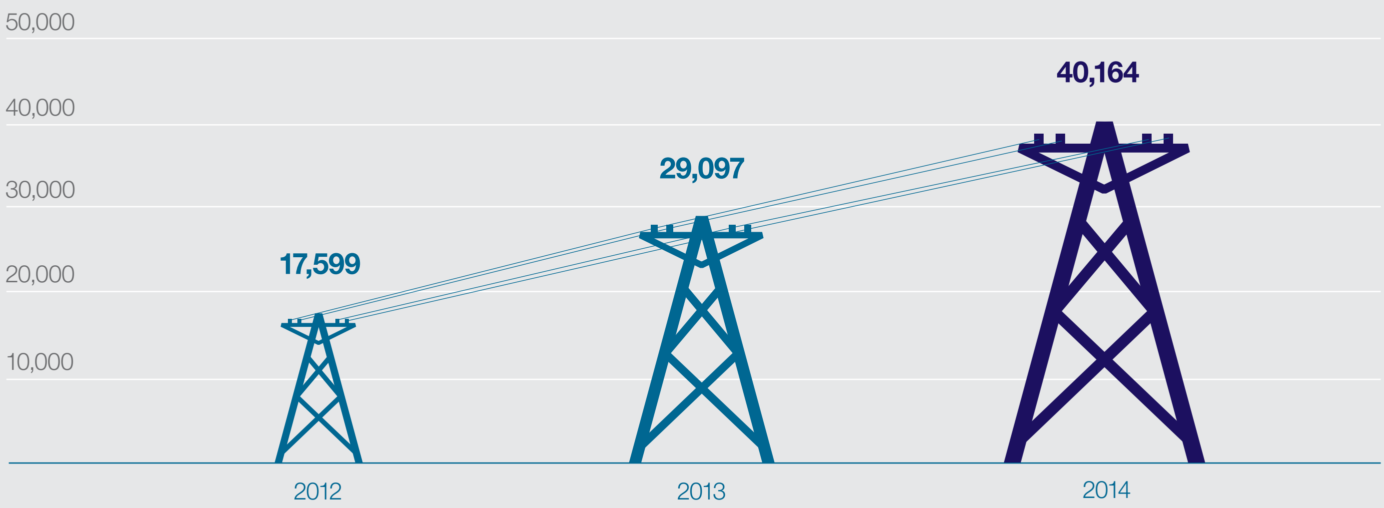
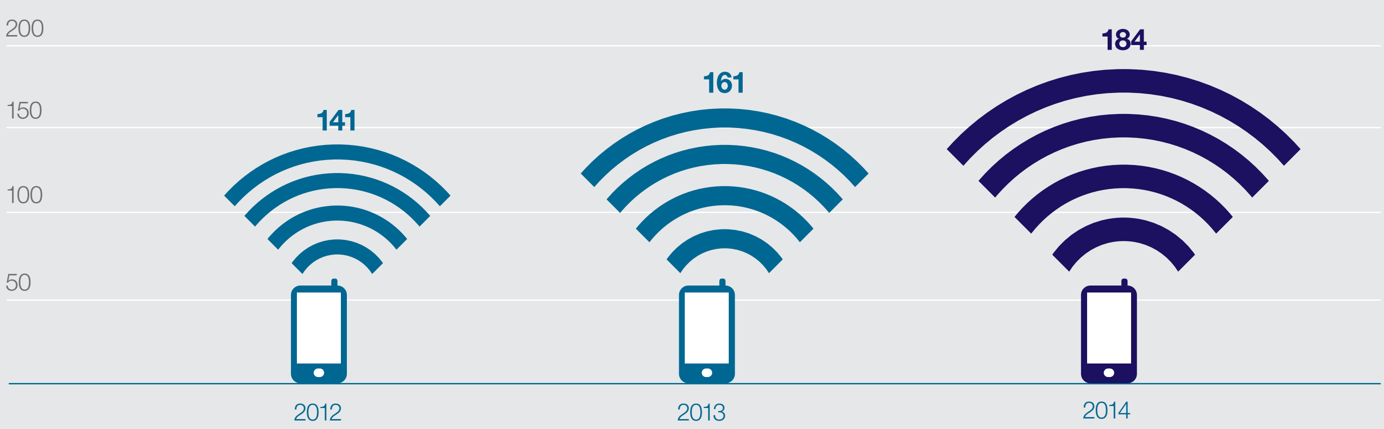


Fig.9
Number of mobile phone subscribers (million)



Financial performance

Summary

CDC's total return in sterling of 14.2 per cent in 2014, while highly beneficial to CDC's ongoing resources for new investment, represents an exceptional year which is not reflective of CDC's current highly developmental investment strategy.

CDC made wholesale changes to its investment strategy in 2012, notably:

– to reduce its geographical focus to Africa and South Asia and while honouring commitments to China, South East Asia and Latin America would no longer do new business in those areas;

– to introduce a more balanced investment capability across fund of funds, direct equity and direct debt; and

– to put a clearer focus on more developmental investments than previously which typically have a higher financial risk profile.

CDC is a long-term investor, where most investments are realised after many years. While CDC revalues its portfolio every year, valuation uplifts tend to materialise towards the end rather than the beginning of the investment period. The new strategy, whilst scaling up rapidly, remains a small part of the overall portfolio at 12 per cent. The remaining 88 per cent consists of investments made prior to the new strategy and it is this part of the portfolio that currently drives CDC's returns.

For example, the 2014 results were driven by large gains: in the legacy China portfolio, driven especially by a high value internet business; and large gains in some infrastructure investments in Latin America and Africa.

The 2014 sterling portfolio return of 18.0 per cent was also enhanced by a large currency translation gain from the return of 11.4 per cent in US dollars (which is the reference currency for the majority of CDC investments). The return for investments made under the new strategy was less than a quarter of this level at 2.7 per cent in US dollars.

It will be some years before the new strategy investments will have a material effect on CDC's financial returns. However, it may be expected that returns will be somewhat reduced over time by the new strategy as a much higher proportion of CDC's capital is being directed to regions with especially challenging investment environments.

CDC's history of annual returns, given the markets where it invests, is extremely volatile. Management does not consider that annual returns are a fair reflection of CDC's underlying financial performance and that cumulative returns over a much longer period are a much better guide. CDC's average total sterling return over the last five years is 6.9 per cent.

Current performance

Presentation of results
CDC's financial results are presented in accordance with International Financial Reporting Standards as adopted by the European Union.

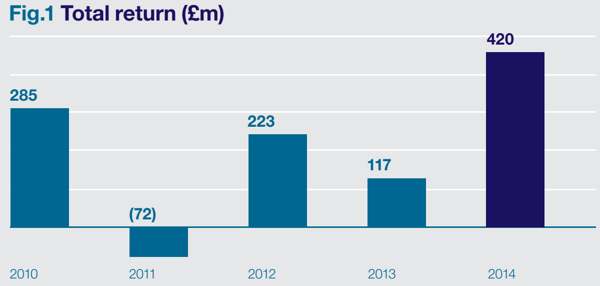
Market conditions
The MSCI Emerging Markets Index is designed to measure quoted equity performance in global emerging markets. In 2014, it fell by 5 per cent (2013: 3 per cent fall). Index movements of individual countries varied widely in 2014 with rises from Egypt (26 per cent), India (22 per cent) and China (5 per cent). However there were falls from Nigeria (30 per cent), Ghana (30 per cent) and Bangladesh (47 per cent).

The current strategy that requires CDC to invest in more challenging regions, utilising unquoted equity and debt, makes a quoted equity index increasingly unconnected to CDC's performance. However, it is a useful indicator of general market sentiment in CDC's geographies.

Total return after tax

The overall result is a total return after tax of £420.2m (2013: £117.3m). As a return on opening total net assets on a valuation basis and including cash held, this represents a profit for CDC's shareholder of 14.2 per cent (2013: 4.1 per cent) this year and an average annual total return of 6.9 per cent over the last five years.

Fig.1 Total return (£m)



Portfolio return

The portfolio generated £450.9m of profit (2013: £140.9m). This represents a portfolio return (which excludes cash held) of 18 per cent (2013: 6.3 per cent, 2012: 13.1 per cent). Most of the portfolio is denominated in US$ so the result in £ this year has benefited from currency translation gains. The portfolio return measured in US$ was 11.4 per cent (2013: 7.5 per cent). As explained above, the returns this year are almost exclusively driven by investment decisions made prior to the change of investment policy in 2012.

	2014 £m	2013 £m
Portfolio return	**450.9**	140.9
Operating costs	**(29.4)**	(23.5)
Other net expenses	**(1.3)**	(0.1)
Total Net Assets	**420.2**	117.3

Operating costs

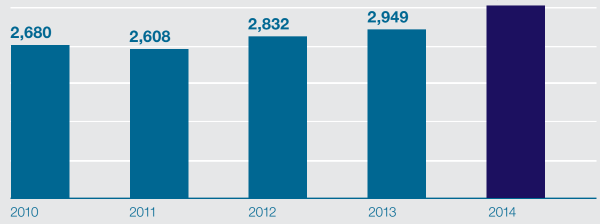
Operating costs for the year of £29.4m (2013: £23.5m) have increased due to employees rising to 134 (2013: 102). Operating costs represent 1 per cent of the Company's opening net asset value.

Portfolio and net assets

	2014 £m	2013 £m
Portfolio	**2,923.0**	2,504.2
Net cash and short-term deposits	**454.4**	449.8
Other net liabilities	**(8.3)**	(5.1)
Total net assets	**3,369.1**	2,948.9

Total net assets increased in the year from £2,948.9m to £3,369.1m a rise of 14 per cent (2013: 4 per cent).

Fig.2 Value growth (£m)

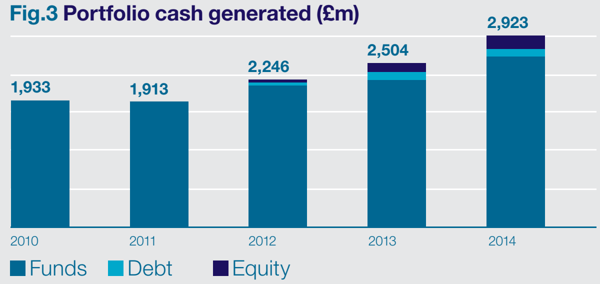


	2014 £m	2013 £m
Portfolio at start of year	**2,504.2**	2,246.0
New investments	**472.3**	416.0
Realisations	**(491.0)**	(289.3)
Value change	**437.5**	131.5
Portfolio at end of year	**2,923.0**	2,504.2

With the change of investment focus in 2012, the direct equity and debt part of the portfolio is growing in line with expectations. However, the portfolio still consists mostly of investments in funds managed by fund managers. Portfolio value increased from £2,504.2m to £2,923.0m in the year as a result of net new investments and valuation gains driven by the growth of underlying companies. CDC has investments in 164 funds, managed by 89 different fund managers, and 29 direct investments.

Based on projections made by each investment team at the end of 2014 it is anticipated that CDC will have achieved the balanced business it desires (approximately 40 per cent equity, 30 per cent debt, 30 per cent funds) by the end of 2017.

Fig.3 Portfolio cash generated (£m)



Financial performance
continued

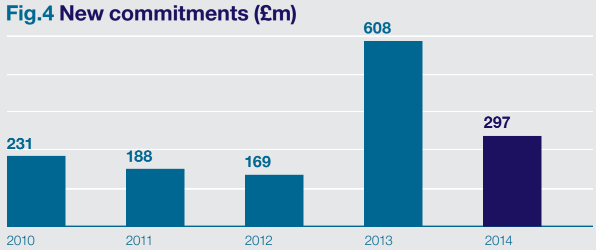
New commitments

In 2014, CDC made new commitments of £296.8m (2013: £608.3m). Total new commitments were:

Fund commitments	£m
Investec Africa Frontier Private Equity II	25.7
AfricInvest III	21.1
Synergy Private Equity Fund	6.4
Africa Renewable Energy Fund	12.8
Advans S.A.	2.8
India Agribusiness Fund II	19.3
	88.1

Direct investment commitments	£m
Ratnakar Bank	18.8
Standard Bank Malawi	16.1
Summit Meghnaghat	11.2
Grindrod Limited	10.7
Actis Energy Cameroon Holdings	6.5
Actis Energy Generation Holdings BV	4.1
Equitas	3.8
Narayana Health	31.0
Utkarsh Microfinance	6.8
Standard Chartered Risk Sharing Facility	48.2
Standard Chartered Sierra Leone Ebola Bank Facility	16.1
Azura Power	19.3
Ecom Agroindustrial Corp Ltd	16.1
	208.7

Fig.4 New commitments (£m)

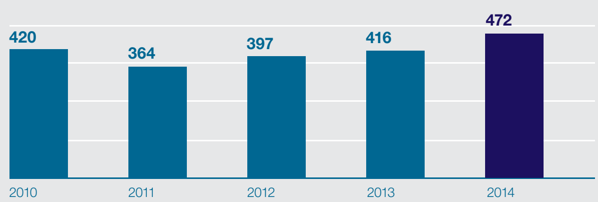


Cash flow

Drawdowns for new investments at £472.3m (2013: £416.0m) were higher than last year. £284.7m was invested in Africa in the year (2013: £160.6m) representing 60 per cent of new investments (2013: 39 per cent).

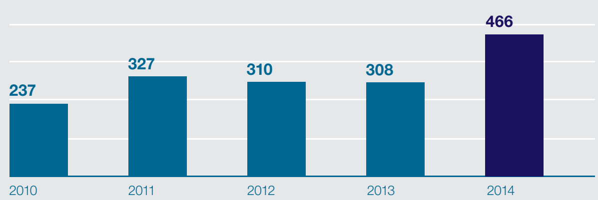
	2014 £m	2013 £m
Portfolio drawdowns	(472.3)	(416.0)
Portfolio cash generated	466.4	308.0
Net portfolio flows	(5.9)	(108.0)
Other cash flows	10.5	(31.9)
Net cash flow	4.6	(139.9)

Fig.5 Portfolio drawdowns (£m)



Portfolio cash generated this year at £466.4m (2013: £308.0m) was higher than last year as a result of increased realisation activity in the maturing fund investment portfolio. This is an encouraging trend. While investments can be made relatively easily in CDC's markets, realisations are far harder due to thin capital markets and, especially for smaller companies, a dearth of credible exit options. CDC regularly reviews its portfolio to guard against the risk of an overly high proportion of inherently illiquid investments with no prospect of liquidity for many years.

Fig.6 Portfolio cash generated (£m)



Net cash and short-term deposits held

Cash and short-term deposits were at a similar level this year at £454.4m (2013: £449.8m). A cash balance is held to allow for timing differences between drawdowns and portfolio receipts and to cover the outstanding legal commitments for new investments into which it will be re-cycled. It represents 42 per cent of outstanding legal commitments which stand at £1,071.3m. However, if the standby borrowing facility of £770.6m is taken into account CDC has available liquidity to cover all outstanding commitments.

Fig.7 Cash and outstanding commitments at 31 December 2014 (£m)

Capital structure

CDC invests in debt, equity and guarantees and is currently funded by equity.

Cash flow forecasting

CDC's investments are long-term in nature and individual cash flows are difficult to predict. However, CDC models best estimates of the performance and future long-term cash flows of its investments which are reviewed and approved by the Board.

Risks and risk management

CDC's operations are managed within limits defined by the Board. The Board regularly reviews the overall risks inherent in CDC's business and the actions taken to mitigate those risks where appropriate. CDC adopted a new risk management policy in 2014 and this policy is in the process of being implemented. CDC has established a Board Risk Committee in 2015 to oversee the implementation of the policy and the risks facing CDC. The principal risks are considered to be as follows:

Reputational risk

As mentioned earlier, CDC expects its portfolio companies and, when investing through funds, its fund managers and underlying portfolio companies to achieve compliance with the Code of Responsible Investing as a minimum and where possible to achieve higher levels with regard to environmental, social and governance issues. Where shortfalls are identified an action plan is agreed. However, there inevitably remains the possibility with such a diverse investment portfolio that an incident at a fund or underlying portfolio company fails to comply with CDC's Code of Responsible Investing and CDC's reputation is damaged.

General financial risks associated with investment

CDC invests in developing countries with a mandate to increase capital into some of the most challenging regions of Africa and South Asia. Such investments are inherently risky with the potential for loss of portfolio value leading to lower cash inflows than expected and negative portfolio returns below targets CDC has agreed with its shareholder. CDC often makes long-term investments with no certainty of return.

A wholly owned subsidiary of CDC has a committed standby borrowing facility of US$1,200m (£770.6m). At 31 December 2014, CDC had significant undrawn commitments of £1,071.3m (2013: £1,288.6m), representing 86 per cent of cash and borrowing facility held. The Board regularly considers cash flow forecasts at Board meetings and expects to meet its undrawn commitments, as well as commitments to future funds, from distributions received from its investments and the current cash balance held of £454.4m. However, market values have decreased as well as increased in the past. The timing of cash distributions from investments is uncertain and unless CDC has a direct majority equity stake, which is rare, usually not within the direct control of CDC. When CDC invests through funds, the sale of interest in these funds may require a lengthy time period since there is only a limited market for secondary sales of emerging markets private equity interests and these sales usually require the consent of the general partner of the fund, the granting of which may be at its discretion.

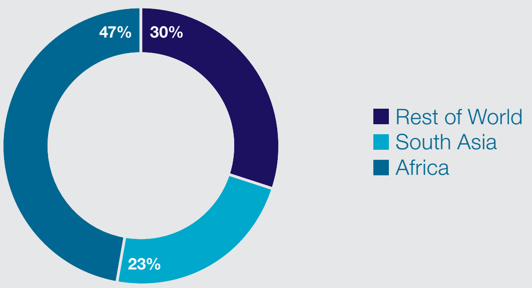
Financial performance
continued

A diversified portfolio of investments mitigates these risks within the policy objectives set by CDC's shareholder. Portfolio exposure targets help to mitigate the portfolio risk. CDC has investments in 164 private equity funds providing it with a portfolio of 1,331 underlying companies that are diversified by vintage year, size, geography and industry sector. CDC's highest sector exposure is 28 per cent in infrastructure. The top 20 investments represent 42 per cent of the portfolio with the largest individual investment representing 15 per cent.

However, given CDC's history the portfolio does remain concentrated with respect to the private equity fund manager Actis. The percentage of funds under management (CDC investment in funds plus outstanding commitments to the funds) by Actis was 33 per cent (2013: 39 per cent) at the end of 2014, but the trend is projected to continue downwards over the next few years.

CDC's highest country exposures are 21 per cent in India, 14 per cent in China, 10 per cent in South Africa and 8 per cent in Nigeria.

Fig.8 Underlying portfolio by region



In the future, CDC's portfolio of investments will be increasingly concentrated on more challenging investment markets in Africa and South Asia, which will increase the risk profile of CDC's portfolio. Projections suggest that the proportion of the portfolio in legacy 'Rest of World' countries outside of Africa and South Asia will fall below five per cent by the end of 2017.

Currency risk

To mitigate currency risks, CDC enters into forward foreign exchange contracts to hedge currency risk in accordance with a currency hedging policy agreed by the Audit, Compliance and Risk Committee. CDC does not trade in derivatives, nor does it enter into currency transactions of a speculative nature. During the year the Audit, Compliance and Risk Committee revised the currency hedging policy and stopped hedging on long-term equity investments. More details on currency exposures and forward foreign exchange contracts are given in the Report and Accounts on CDC's website.

Valuation risk

CDC valuation guidelines have been developed in accordance with the International Private Equity and Venture Capital Valuation Guidelines which in turn are in accordance with the fair value requirements contained within IAS 19/IFRS 13. Investments are valued at fair value, which is the value at which an orderly transaction would take place between market participants at the reporting date. The detailed valuation methodology sets out best practice with respect to valuing investments. Valuation risks are mitigated by comprehensive reviews of CDC's investments and the underlying investments in the private equity funds carried out by the relevant CDC investment managers at least twice each year. These valuations are reviewed by CDC management and then considered by the Audit, Compliance and Risk Committee.

More details of the valuation methodology given in the Report and Accounts which is available on CDC's website.

Godfrey Davies
Chief Financial Officer

Glossary of terms

IFI – international financial institution
DFI – development finance institution
UNDP – United Nations Development Programme
ILO – International Labor Organisation
FAO – Food and Agricultural Organisation of the United Nations
USAID – United States Agency for International Development
IPO – initial public offering
ODI – Overseas Development Institute
MSCI – Morgan Stanley Capital International

All $/dollars are US-dollars unless otherwise stated.

Data disclaimer

While we have used our reasonable efforts to ensure the accuracy of the data used in this report, data regarding employment and taxes paid has not been audited or independently verified. Data on employment and taxes paid has been received from many but not all of CDC's investee businesses. We have received this data from our investment partners, including the fund managers that 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 as possible to year end 2014. Employment data may sometimes include contract workers and other non-permanent workers. Tax data mostly refers to corporate taxes paid in the 2013 financial year by CDC's investee businesses. This data should be read as indicative of magnitude rather than exact figures.

Photographs

All photographs originate from CDC's image library of investee business, or have been supplied by investment partners, or have been taken by CDC employees on site visits.

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