

CDC Group plc  
Board of Directors  
123 Victoria Street  
London SW1E 6DE  
United Kingdom

April 4<sup>th</sup>, 2016

**SUBJECT: ASSURANCE OF CDC'S USE OF THE DEVELOPMENT IMPACT GRID IN 2015**

Dear members of the Board,

In this letter we provide the annual assurance of CDC's use of the Development Impact Grid ("DI Grid") in 2015 for the direct and indirect investments to which it applies.

The assurance covers two aspects:

1. *Verification of sources*: whether the materials provided by CDC show consistency with publicly available information;
2. *Appropriate assignment of DI scores*: whether the Development Impact score ("DI score") is calculated in accordance with the methodology set out in the DI Grid manual.

The assurance process was as follows:

1. The CDC Development Impact team ("DI team") provided an Excel-based overview of all investments in 2015 to which the DI Grid applies. This overview was accompanied by DI score calculation sheets, backed up by investment papers/presentations or fund reports ("background documents") where necessary;
2. We checked whether:
  - i. Information in the overview and background documents was consistent with public sources;
  - ii. DI scores were sufficiently verifiable based on the background documents provided by CDC;
  - iii. DI scores were calculated and assigned according to the DI Grid manual;
3. We requested and received additional information for 11 investment cases;
4. We drafted this assurance letter outlining our findings.

As in previous years, we intend to follow up this assurance letter with a management letter focused on the DI Grid process. In this letter we will (i) assess the implementation of last year's recommendations and (ii) provide recommendations to further strengthen the process. Upon your request, we aim to submit this letter for the next meeting of your Development Committee.

## Summary of findings

We confirm that CDC invested in 2015 in accordance with the requirements of the Development Impact Target as set out in the CDC Group plc Investment Policy ("Investment Policy"). After this assurance process, the weighted average DI score for CDC's USD 591.1m total investment amount in 2015 is 3.12. In 2012, 2013 and 2014 the weighted average DI scores were 2.92, 2.98 and 2.99 respectively.

The aggregate weighted average DI score for all investments made from 2013-2015 is 3.05. This is well above the three-year minimum DI score target of 2.40 as set out in the Investment Policy.

Overall, DI scores were appropriately calculated and sufficiently verifiable. For 11 investments we submitted questions and/or requested additional information from the DI team to adequately assure the DI score. For three cases the DI score submitted was adjusted during the assurance process. As the table below shows, the need for information request and/or adjustments decreased year-on-year.

	2015	2014	2013
Total invested amount (in USD million)	591.1	414.3	161.3
Invested companies / projects	95	60	24
Requests for additional information	11 (11.5%)	8 (13.3%)	8 (33.3%)
Differences with CDC opinion	3 (3.2%)	4 (6.6%)	3 (12.5%)
Weighted average DI score	3.12	2.99	2.98

Annex 1 summarises seven specific cases where we requested additional information and/or altered the DI score. We consider these noteworthy as they concern complex DI score calculations and/or cases where the Grid manual leaves room for interpretation.

In this year's assurance process we noted a need for more detailed guidance on definitions and sector allocations. We suggest to further address this need and our suggestions in the management letter on the DI Grid process.

CDC has been forthcoming in supplying extra information and discussing specific investments. Questions regarding the investment case, development impact and DI score calculation were resolved through email and telephone conversations and differences of opinion were adequately reconciled.

Kind regards,



René Kim

Partner, Steward Redqueen B.V.

## Annex 1: Summary of more complex cases

Below we summarise seven cases where we requested additional information and/or altered the DI score. We consider these noteworthy as they concern complex DI score calculations or cases where the Grid manual leaves room for interpretation.

### Direct equity investment in HBL Pakistan

<i>Investment Difficulty</i>	B (Pakistan)
<i>DI of Sector</i>	High (Financial Services)
<i>DI Score assigned by CDC</i>	3.78
<i>DI Grid manual followed</i>	Yes
<i>Difference with CDC opinion</i>	Yes
<i>Final DI Score</i>	3.19

*Comments:* HBL is the largest commercial bank in Pakistan. CDC's investment in HBL is a secondary purchase of shares held by the Government of Pakistan, as part of its privatisation agenda. It concerns CDC's largest investment in 2015 (USD 121.9m). HBL is primarily focused on Pakistan, but also has international financing activities. In order to determine the DI score, a metric is required to weigh the Pakistani and international activities (the latter being almost entirely outside of CDC's investment universe in Europe, US, Middle East). CDC's DI score calculation used employment figures as the weighing metric. Although employment is the default weighing metric, the Grid manual specifically prescribes assets under management (AUM) as a more appropriate metric for investments in financial services. In line with this guidance, AUM was used in nearly all financial services investment cases over the last three years. Therefore we are of the opinion that AUM should also be used as the weighing metric in HBL's case. As the relative volume of AUM outside of Pakistan is larger than the number of employees operating outside of Pakistan, the DI score was lowered from 3.78 to 3.19.

### Direct equity investment in Ecom Agroindustrial Corp.

<i>Investment Difficulty</i>	A, B, C (Côte d'Ivoire, Cameroon, Rwanda, Kenya, Tanzania, Nigeria)
<i>DI of Sector</i>	High (Trade)
<i>DI Score assigned by CDC</i>	3.83
<i>DI Grid manual followed</i>	Yes
<i>Difference with CDC opinion</i>	No
<i>Final DI Score</i>	3.83

*Comments:* Ecom is an international commodity trader with worldwide operations. CDC required that an amount equivalent to its investment would be deployed in African operations. The sector DI is 'high', as Ecom sources more than 60% locally by buying directly from farmers. To determine the investment difficulty the flow of capital has to be traced. At the time of investment six African countries were identified where CDC's capital would be used. However, it was unknown how this capital would exactly be deployed per country. Therefore an equal capital allocation was assumed in calculating the DI Grid score. This is acceptable given the lack of more detailed information.

### Direct equity investment in GEMS Education

<i>Investment Difficulty</i>	B, C (Kenya, Uganda, Nigeria)
<i>DI of Sector</i>	High (Education)

<i>DI Score assigned by CDC</i>	3.64
<i>DI Grid manual followed</i>	Yes
<i>Difference with CDC opinion</i>	Yes
<i>Final DI Score</i>	3.73

*Comments:* GEMS is an international company providing education services. CDC's investment was allocated to the establishment of several new schools in Africa in the coming years. The final IC paper contained two scenarios: the GEMS management plan and a more conservative CDC case. The GEMS management plan envisaged the development of 22 new schools (7 Kenya, 7 Uganda and 8 Nigeria) up to 2025, while CDC expected 11 new schools (4 Kenya, 4 Uganda and 3 in Nigeria) to be established up to 2020. The GEMS management scenario would result in a 3.64 DI score, the CDC case in a slightly higher score of 3.73 given the higher relative portion of schools in B countries (Kenya, Uganda). The IC paper indicated that CDC followed its own more realistic scenario, which we support. However, the submitted DI score in the IC paper was mistakenly based on the GEMS management plan (3.64). After a request for clarification the DI team submitted a revised DI score calculation sheet, adjusting the score to 3.73.

#### **Indirect equity investment in Magma Fincorp (through Leapfrog Financial Inclusion Fund II)**

<i>Investment Difficulty</i>	A, C, D (various Indian states)
<i>DI of Sector</i>	High (Microfinance), High/Low (Financial Services)
<i>DI Score assigned by CDC</i>	2.92
<i>DI Grid manual followed</i>	Yes
<i>Difference with CDC opinion</i>	No
<i>Final DI Score</i>	2.92

*Comments:* Magma Fincorp is an Indian financial services provider with a wide range of loan products, including (used) vehicle financing, mortgages and SME loans. In calculating the DI Grid score, it had to be determined whether loan products could be categorised as microfinance (as financial activities in D states could then be eligible for an uptick to a 'high' DI of sector). CDC calculated the average loan size per product area, and subsequently used a definition of the Research Bureau of the Indian Parliament (IRS). Although the Grid manual mentions a definition of the Indian Central Bank (CB) as provisional guidance in these cases, we follow CDC in the use of the IRS definition, as it concerns a more recent and appropriate definition.

#### **Indirect equity investment in Project Phalarope (through the Phatisa Pan-African Housing Fund)**

<i>Investment Difficulty</i>	B (Rwanda)
<i>DI of Sector</i>	High (Construction), Low (Business Services)
<i>DI Score assigned by CDC</i>	2.80
<i>DI Grid manual followed</i>	Yes
<i>Difference with CDC opinion</i>	No
<i>Final DI Score</i>	2.80

*Comments:* Project Phalarope is a housing development project in Kigali. Real estate development projects consist of design, construction, sales, rental services and facility management activities. These activities fall under the construction and business services sectors. As it is usually difficult to exactly determine the ratio between both sectors, the DI team formulated a general rule of thumb for this kind of projects, where 40% is construction and 60% business services. The rationale is that an investment in a real estate project through a fund manager averages a 2-year construction period out of a total 5 year holding period. We consider this rule

of thumb realistic and sufficiently conservative. We therefore support its application among all real estate development projects where more detailed information is absent.

#### **Indirect equity investment in AFB / Jumo World (through Leapfrog Financial Inclusion Fund II)**

<i>Investment Difficulty</i>	B, C (Ghana, Kenya, Tanzania)
<i>DI of Sector</i>	Low (Business Services)
<i>DI Score assigned by CDC</i>	1.65
<i>DI Grid manual followed</i>	Yes
<i>Difference with CDC opinion</i>	No
<i>Final DI Score</i>	1.65

*Comments:* Jumo World is a fintech business developing a mobile money marketplace for emerging markets. Jumo's platform links individuals, small businesses, banks and mobile operators to each other. The aim is to increase access to more diverse mobile financial products for individuals and small businesses, while providing banks and mobile operators the opportunity to tailor product offering based on mobile phone usage data. The DI score is challenging to determine, as Jumo's activities can be regarded as financial services as well as business services. The Grid manual does not provide sufficiently detailed guidance on the sector allocation of these types of operations. CDC decided to conservatively determine the sector as business services, as no new capital flows into the economy. We agree on this approach. This year we note a number of investments where this question surfaced. We therefore see a need for more guidance on scoring more sophisticated financial services operations, such as those offered by fintech companies.

#### **Indirect equity investment in Elephant Group (through AfricInvest III)**

<i>Investment Difficulty</i>	C (Nigeria)
<i>DI of Sector</i>	Low (Trade)
<i>DI Score assigned by CDC</i>	2.00
<i>DI Grid manual followed</i>	Yes
<i>Difference with CDC opinion</i>	Yes
<i>Final DI Score</i>	1.00

*Comments:* Elephant Group Nigeria is a trading company focusing on the import and export of agricultural commodities. The DI score of 2.00 submitted by CDC was based upon an expectation that Elephant would significantly upscale the export of sesame seeds and cashew sourced from local producers, which would trigger a partly 'high' DI of sector. We found insufficient evidence that would back up this expectation, and requested verification by the DI team. The DI team acknowledged that the envisaged increase of export of local production was based on a too informal assumption, which had not yet materialised and was uncertain to materialise in the near future. After discussion with the DI team it was decided to retrospectively downgrade the DI score to 1.00.