steward redqueen

CDC Group plc
Board of Directors
123 Victoria Street
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March 14th, 2017

SUBJECT: ASSURANCE OF CDC'S USE OF THE DEVELOPMENT IMPACT GRID IN 2016

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 2016 for the direct and indirect investments to which it applies.

The assurance covers three aspects:

1. *Appropriate assignment of DI scores*: whether the Development Impact scores ("DI scores") are calculated in accordance with the methodology set out in the DI Grid manual;
2. *Internal verification of sources*: whether the DI score calculations, including any potential assumptions, are solidly backed up by investment papers/presentations or fund reports ("background documents");
3. *External verification of sources:* whether these background documents provided by CDC show consistency with publicly available information.

The assurance process was as following:

1. The CDC Development Impact team ("DI team") provided an overview of all investments in 2016 to which the DI Grid applies. This overview was accompanied by individual DI score calculation sheets for al investments, backed up by investment papers/presentations or fund reports;
2. We checked whether:
   i. DI scores were calculated and assigned according to the DI Grid manual;
   ii. DI scores were sufficiently verifiable based on the background documents provided by CDC;
   iii. Information in the overview and background documents was consistent with public sources;
3. We requested and received additional information for ten 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 methodology and process. In this letter we will (i) assess the implementation of last year's recommendations and (ii) provide recommendations to further strengthen the DI Grid methodology and 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 2016 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 869.5m total investment amount in 2016 is 3.02.

The aggregate weighted average DI score for all investments made from 2014-2016 is 3.04. This is well above the three-year minimum DI score target of 2.40 as set out in the Investment Policy.[1]

Overall, DI scores were appropriately calculated and sufficiently verifiable. For ten investments we submitted questions and/or requested additional information from the DI team to adequately assure the DI score. In four cases the DI score submitted was adjusted during the assurance process.[2] As the table below shows, the need for information requests and/or adjustments decreased year-on-year.

	2016	2015	2014	2013
Total invested amount (in USD million)	869.5	591.1	414.3	161.3
Invested companies / projects	133	95	60	24
Requests for additional information	10 (7.5%)	11 (11.5%)	8 (13.3%)	8 (33.3%)
Adjustments of DI score	4 (3.0%)	3 (3.2%)	4 (6.6%)	3 (12.5%)
Weighted average DI score	3.02	3.12	2.99	2.98

Annex 1 summarises five specific cases where we requested additional information or altered the DI score. We consider these noteworthy as they concern complex DI score calculations or cases where the DI 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, particularly around 'new economy' investments such as in fintech, mobile applications, and online marketplaces. As the Grid currently provides insufficient guidance on sector allocation and the use of a weighing metric, scores are not consistently calculated. We suggest that CDC develops further guidance on these cases, which we will further address in our management letter on the DI Grid process.

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

Kind regards,

René Kim

Partner, Steward Redqueen B.V.

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[1] The annual weighted average DI scores since the introduction of the DI Grid have been 2.92 (in 2012), 2.98 (in 2013), 2.99 (in 2014), and 3.12 (in 2015) respectively.

[2] These four adjustments were made as a consequence of updated employment figures (following more detailed verification materials), and one minor mistake in DI sector score allocation.

ANNEX 1: SUMMARY OF COMPLEX CASES

Below we summarise five cases where we requested additional information and/or adjusted the DI score during the assurance process. We consider these noteworthy as they concern cases where the Grid manual leaves room for interpretation (Zipgo, AIG, Akiira, Azalai) or complex DI score calculations (Parijat).

Indirect investment in Zipgo (through the VenturEast Proactive Fund II)	
Investment Difficulty	A, C, D (Delhi, Maharashtra, Karnataka, Rajasthan)
DI of Sector	Low (Business services)
DI Score assigned by CDC	1.00
DI Grid manual followed	NA
Difference with CDC opinion	No
Final DI Score	1.00

Comments: Zipgo is an application that enables users to book transportation on private buses to a pre-determined location. The company's head office is located in Bangalore, and the service is currently available in four cities (Delhi, Mumbai, Bangalore, Jaipur). CDC conservatively assigned the investment to the business services sector rather than the transport sector, which we cannot disagree with given the absence of more detailed guidance in the Grid manual. As a weighing metric CDC used the total number of buses, although it did not have details on the number of buses per city. In the absence of this information it was decided to conservatively assign all buses to D states. The Zipgo case highlights the need for more guidance on sector allocation as well as the weighing metric for investments in mobile applications.

Direct equity investment in Africa Internet Group (AIG)	
Investment Difficulty	A, B, C, D (Nigeria, Egypt, South Africa, Morocco, Kenya, Côte d'Ivoire, Uganda, Ghana, Cameroon, Tanzania, Algeria, Angola, Senegal, Rwanda, Tunisia, Ethiopia, Zambia, Zimbabwe, Mozambique, DR Congo, Gabon)
DI of Sector	Low and Medium (Trade, Transport)
DI Score assigned by CDC	2.07
DI Grid manual followed	NA
Difference with CDC opinion	No
Final DI Score	2.07

Comments: Africa Internet Group was founded by Rocket Internet and has set up an ecosystem of online businesses operating throughout Africa. The ecosystem consists of 6 marketplace companies and 4 classifieds companies. CDC's investment is direct equity and intended as growth capital. As a weighing metric CDC used the use of funds (project cash burn) in 2016 and 2017 across all 10 companies and their operating countries. The DI score is challenging to determine as the activities of all companies can be allocated to either business services or the sector which they target. For this investment, the DI team allocated sectors according to the sector in which the companies operate. For example, EasyTaxi, a mobile application comparable to Uber that operates in several African countries, was allocated to the transport sector. It can however be questioned whether the capital flows directly to the transport sector. As the Grid manual does not provide sufficient guidance on the sector allocation of these types of operations, we do not disagree with CDC's DI score calculation. This does mean, however, that the sector allocation of comparable investment cases (e.g. Zipgo and EasyTaxi) is inconsistent, which emphasises the need for more guidance in the Grid manual on scoring 'new economy' deals, and mobile application in particular.

Direct equity investment in Akiira Limited	
Investment Difficulty	B (Kenya)
DI of Sector	Low (Mineral extraction)

DI Score assigned by CDC	2.00
DI Grid manual followed	Yes
Difference with CDC opinion	No
Final DI Score	2.00

Comments: Akiira Limited is a greenfield geothermal site in Kenya. According to the Grid manual, a geothermal power plant is classified as renewable energy, which is a high impact sector. However, CDC's investment concerns development equity to be used for the exploration phase of the project. As outlined in the IC paper, the CDC investment is solely to be used for exploratory drilling. CDC in this case appropriately assigned the economic activity (drilling) to the mineral extraction sector (low impact). The Akiira case serves as an example where CDC traced the use of capital well, even though this resulted in a low DI score.

Indirect investment in Azalai (through the AfricInvest Fund III)

Investment Difficulty	A, B, C, D (Mali, Guinea Bissau, Benin, Côte d'Ivoire, Senegal, Mauritania, Burkina Faso)
DI of Sector	Medium (Trade)
DI Score assigned by CDC	3.83
DI Grid manual followed	Yes
Difference with CDC opinion	No
Final DI Score	3.83

Comments: Azalai is a hotel chain situated in a number of countries in Western Africa. CDC allocated this investment as trade with 20%-60% local procurement, resulting in a medium sector impact. This allocation is conservative and appropriate for a hotel business. The team used the number of hotel rooms per existing location as a weighing metric for calculating the DI score, which is an appropriate metric. However, as outlined in the AfricInvest Fund's report, the capital is to be largely used for the finalisation of construction of existing locations and the development of new locations. The project thus consists of the exploration, design, construction, operation, and facility management activities in existing and potential new hotel locations. When tracing the capital in a strict manner, these activities could be assigned to both the construction (high impact) and trade (medium impact) sectors. In discussions with CDC we jointly established that it is impossible to accurately trace the exact portion of capital flowing to construction, while the end beneficiary will ultimately be the trade sector. It was therefore decided to take a conservative approach and remain with trade as the allocated sector. While the Akiira case shows that tracing capital is important for appropriate sector allocation, the Azalai case shows there also are reasonable limits on the extent to which capital can be traced to different economic activities.

Indirect equity investment in Parijat (through India Agribusiness Fund II)

Investment Difficulty	C, D (Andra Pradesh, Delhi, Haryana)
DI of Sector	Low (Business Services, High (Manufacturing, Trade)
DI Score assigned by CDC	1.66
DI Grid manual followed	Yes
Difference with CDC opinion	Yes
Final DI Score	1.47

Comments: Parijat is a chemicals and trading company in crop protection. It concerns a complex investment case with multiple economic activities in multiple Indian states. Activities concern management, research & development, sales (business services), manufacturing, and storage (trade with over 60% locally sourced). CDC appropriately used employment per site as a weighing metric, and allocated sectors well, although a minor mistake was made in the calculation. After verification of employment per site with the fund manager and an updated calculation, the DI Grid score was adjusted from 1.66 to 1.47.