CDC
Investment works

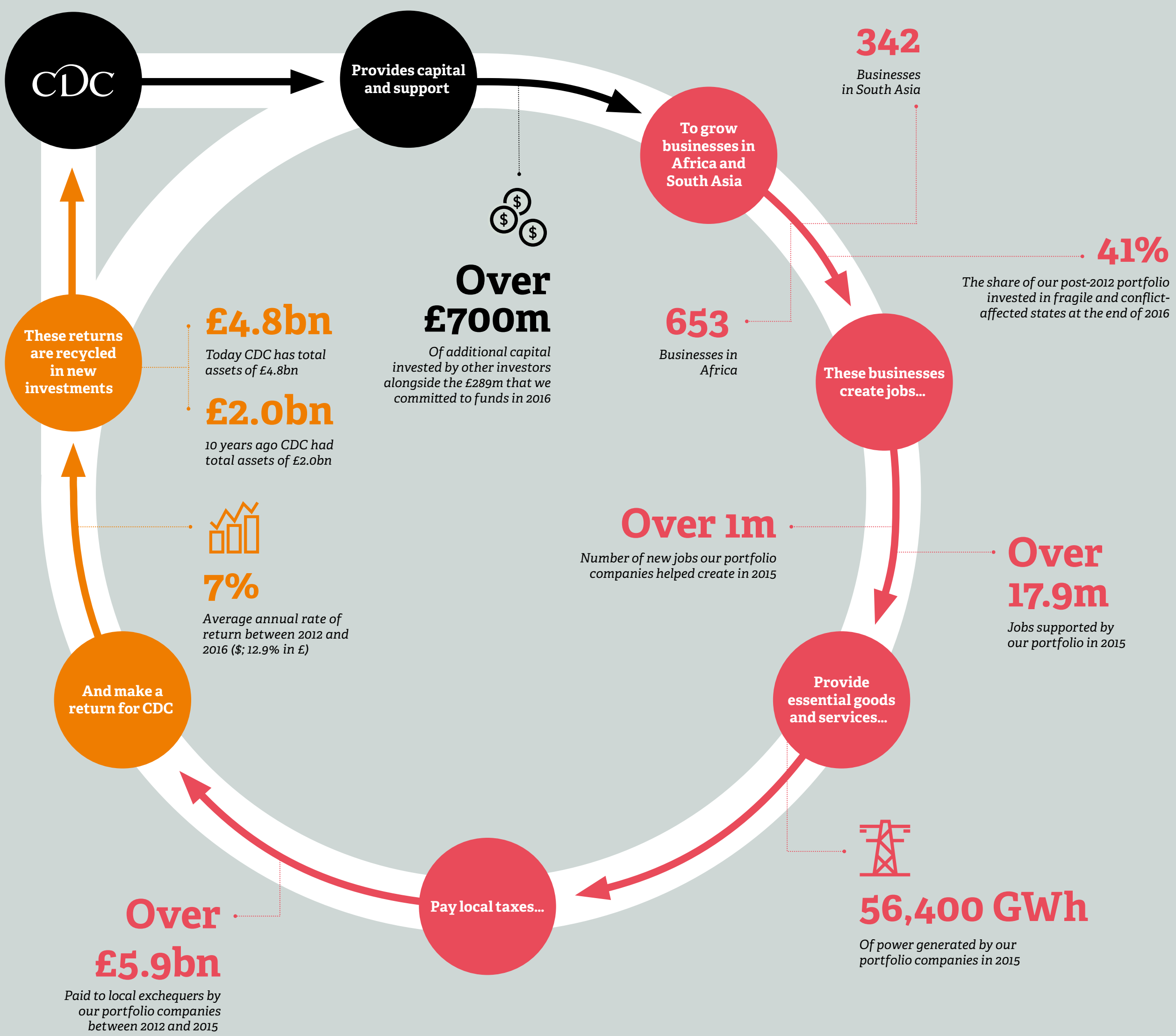
Investing to transform lives

Strategic framework 2017–2021
CDC: the UK's development finance institution

Our 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.

How our model works

CDC is the UK's development finance institution, wholly owned by the UK government. We have a dual objective: to support growth and jobs that lift people out of poverty, and to make a financial return, which we invest in more businesses. In this way, we use our capital over and over again to help create the jobs and economic stability that will enable countries to leave poverty behind.



Contents

Developmental

We will embed development throughout CDC to maximise our impact.

We will:
+ Invest only in Africa and South Asia, where the world's poorest people live.
+ Prioritise investing in poorer and more fragile countries, and the sectors that create the most jobs.
+ Develop a world-class framework to maximise our impact. We will integrate this with our investment process and deepen our development expertise.
+ Mobilise private capital alongside our investments, and find new ways to partner with investors to increase our own impact.
+ Achieve a broad range of impacts in addition to our main aim of creating jobs.
+ Support the UN Global Goals, including women's economic empowerment and climate change.
+ Undertake more evaluations to enhance our understanding of the best ways to support long-term positive change in our markets.

Responsible

We will invest responsibly, and persuade others to follow suit.

We will:
+ Set high environmental, social and business integrity standards and provide practical assistance to businesses and investment fund managers.
+ Always ensure our capital or expertise supplements what private investors will provide.
+ Increase our transparency and strengthen our approach to tax practice amongst development finance institutions (DFIs).

Innovative

We will address key development challenges in new ways.

We will:
+ Invest to transform whole sectors.
+ Invest in new business models and nascent or failed markets.
+ Take calculated risks to unlock impact we could not otherwise achieve.

Enduring

We will grow in response to market need, ensuring value for money for the UK taxpayer.

We will:
+ Build our team of outstanding professionals, who are dedicated to achieving development impact through their commercial judgement.
+ Expand our local presence by opening country offices.
+ Manage and mitigate risks, recognising they are inherent in our mission, through continuous improvement of our risk policies and procedures.

« Having a job means I have been able to sustain my life and send my children to school. »

Danford Mpalanzi, Songas, Tanzania

Introduction

Foreword from the Secretary of State for International Development

+

Introduction from our Chairman

+

Context

« *CDC is like us. They look at the long-term horizon, they look at making this world a better place to live. As long as an investment is going to touch more people, and help more people, they are supportive.* »

Dr Devi Shetty, Founder and Chairman
Narayana Health

The Rt Hon Priti Patel MP

Foreword from the Secretary of State

Throughout history, sustained, job-creating growth has played the greatest role in lifting huge numbers of people out of grinding poverty. This is what developing countries want and is what the international system needs to help deliver. It is a large part of how we will achieve the Global Goals and help countries move beyond the need for aid.

That is why, as the UK's International Development Secretary, I am determined to take our work on economic development to the next level. I recently launched my department's first ever Economic Development Strategy, setting out how we will invest in businesses to create jobs, catalyse private sector investment and build markets in the most challenging settings. CDC, as the UK's development finance institution and a world leader in this field, will be central to its success. It complements the rest of UK aid. For example, it is not enough for us to simply improve a girl's education – for her to escape poverty she needs both a better education and a better job.

If you look at the world today, faltering growth and rising youth populations have exposed the chronic need for jobs and better opportunities. At the moment, most developing countries are not growing or industrialising fast enough to leave poverty behind. In fact, the additional financing needed to achieve the UN Global Goals by 2030 is estimated at $2.5 trillion every year, with current investment levels less than half of that. As the UN has made clear, much of this finance needs to come from the private sector.

CDC is one of only a few investors in the world with the skills and risk appetite to create jobs and opportunities in the most difficult markets, where private investors won't often go. Yet it is these same places where jobs and economic opportunities are most desperately needed to help bring stability and give people a stake in the future. It is here that CDC uses its expertise and capital to support businesses to create jobs, and to demonstrate to private investors that responsible investments in difficult markets can be viable.

CDC transformed its approach in 2012. It now invests only in Africa and South Asia, where over 80 per cent of the world's poorest people live and where private capital is scarce. CDC prioritises sectors which can create the most jobs. In 2015, CDC-backed businesses helped create over one million new jobs. These same businesses have paid over £5.9 billion in local taxes since 2012. This, in turn, is money governments can use to finance much-needed public investments in health, education and infrastructure – a virtuous circle which can itself quicken the escape from aid dependence.

CDC is pivotal to our mission to end poverty for good and leave no one behind. This five-year strategic framework will see CDC step up as one of the world's most developmental, transparent and high-impact development finance institutions. As part of this, CDC will lead innovative strategies that build markets for the future and create even more jobs in the world's poorest places. It will enable CDC to remain at the forefront of development finance thinking and practice.

I am proud of CDC, and with this new strategic framework I am confident that this great British institution will continue to make the pioneering investments needed to transform economies, help win the fight against poverty, and secure a more prosperous future for people in the world's poorest countries and for all of us.

The Rt Hon
Priti Patel MP

Graham Wrigley

Introduction from our Chairman

Next year, CDC will be 70 years old. During its existence, it has developed a proud heritage of achieving economic development in the world's poorest countries, altering its approach according to the needs of the time.

2012 marked an important new strategic direction. We narrowed our geographical focus to Africa and South Asia, where a majority of the world's poorest people live, and prioritised investing in sectors where growth leads to jobs. We also started investing directly once again, alongside our well-established approach of supporting investment fund managers. This has given us the flexibility to target high-impact businesses directly, while continuing to support a much wider range of companies and mobilise private capital through funds.

We've achieved a lot. Over the last five years we've supported the creation of millions of jobs and invested in 1,745 businesses. Those businesses have taken strides to operate to high environmental, social and business integrity standards. And we've made an average return to UK taxpayers of seven per cent a year. To do all this, we've built our capability, with more than 230 highly skilled staff committed to achieving the best possible development impact.

In 2015, the Department for International Development (DFID) provided CDC with its first new capital in 20 years. Later that year, the new UN Global Goals set everyone's sights on 2030 and, with DFID, we discussed our shared ambition to do even more to help countries transform into flourishing economies that will provide jobs and livelihoods, raise incomes, deliver goods and services and end poverty for their citizens.

This new strategic framework sets out our vision for the next five years. It rightly builds on our progress since 2012 with an ambition to use our commercial skills to achieve even more impact. By addressing market and sector problems, by looking for new ways to mobilise more capital and by being bold and smart about risk.

In developing this framework, we have listened to the views of many people, including NGOs, parliamentarians and stakeholders in the countries where we invest. We will continue to do so. We're committed to doing more about transparency, stakeholder relations and evaluating our impact, not only to enhance our own knowledge but, I hope, to inspire others to begin investing to transform lives.

CDC is fully owned by the UK taxpayer and, like any business, we aspire to create value for our shareholder. This means creating maximum development impact, demonstrating to other investors that successful investing in Africa and South Asia is possible, and generating a financial return that will permit the recycling of patient, high-impact investment in the decades ahead.

Graham Wrigley
Chairman

1,745

Number of businesses supported by CDC in the last five years

The UN Global Goals and the need for development capital

The need for economic growth

The UN's Global Goals set ambitious targets to end extreme poverty by 2030 and set the world on a path to sustainable development.

The Goals and the Addis Ababa Action Agenda produced international consensus that the public sector, even in developed economies, cannot do this alone. No country has escaped poverty without a thriving private sector playing a full role in developing a strong economy that will generate the wealth and tax receipts needed to build infrastructure, provide public services, and create jobs.

The need for jobs

Over the next decade, a billion more young people will enter the job market, mainly in Asia and Africa. Africa's population is set to double by 2050, and its urban population to triple. Getting people into work will be vital for their wellbeing, giving them dignity and the means to escape poverty.

To achieve this, countries need a mixed economy with businesses of all sizes. Many African and South Asian economies currently rely disproportionately on informal or sub-scale businesses. According to available data, the UK has over 15,000 businesses that reported more than $50 million in revenues over the last 12 months, whereas Ethiopia has just 15 for its population of 99 million. Many smaller African countries have fewer than ten. The picture is similar in the poorer states of India. Bihar's 100 million people have just three such businesses.

THE GLOBAL GOALS
For Sustainable Development

The UN Global Goals for Sustainable Development, agreed in 2015, produced international consensus for the first time that the private sector must play a full role in eliminating poverty.

« Having a job is a first step in eliminating poverty in a community. »

Petronilla Alphonce (pictured), Head of Production, Chai Bora, Tanzania

CDC invests in Chai Bora through the Catalyst Fund I.

I had an idea to do business, but I did not have the money. Then I heard I could get a loan. We can use the money we now earn from our business for our children's studies, for taking care of us if we fall ill, and to buy things for our home.

Kala started her tailoring business with a microfinance loan from Equitas, an Indian microfinance institution we've supported since 2013.

The need for investment

Developing countries currently face an estimated annual investment gap of $2.5 trillion if they are to achieve the Global Goals by 2030. Long-term underinvestment has led not only to a lack of jobs, but to poor infrastructure and services that lag decades behind those in more developed economies.

Foreign direct investment (FDI) in the regions where we invest has remained persistently low. In 2015, the UK's FDI per capita was US$774, whereas Pakistan's was just $5. In fact, South Asia's FDI inflows are the lowest relative to population across the world. Global inflows of FDI to sub-Saharan Africa accounted for just two per cent of the total in 2015. There are many reasons these countries fail to attract sufficient investment, but a key reason is risk. Whether real or perceived, investors are deterred by a range of risks, from political instability and corruption through to currency volatility.

While business opportunities remain for commercial investors, the economic environment is more challenging than it has been in some years. Investment growth in most emerging and developing markets is currently below its long-term average for the past quarter-century, except during serious global downturns. The markets we invest in are likely to continue to face considerable economic headwinds over the next five years, such as falling commodity prices, low levels of foreign investment, increasing debt and political risk.

Of course, the picture is not the same across the whole of Africa and South Asia. For example, growth prospects across South Asia are generally expected to be positive, and those African economies reliant on imports will benefit from lower commodity prices.

The next five years will continue to present opportunities and challenges. There remains considerable uncertainty with more than 20 national elections due to take place across Africa and South Asia in the next two years. These can bring opportunity, volatility, stagnation and even conflict. Our role is to continue to act as a long-term, patient investor, stepping up when others might withdraw.

There is no secret about what rekindling growth and getting out of poverty means: it means raising the productivity of ordinary people and we know how to do that. Raising the productivity of ordinary people is what proper firms do. They perform a miracle of productivity every day by bringing ordinary people together at scale and specialisation, and making them dramatically more productive than they would be as isolated individuals.

Sir Paul Collier, Professor of Economics and Public Policy, University of Oxford

Investment works

Celtel: bringing mobile telecoms to Africa

CDC invested in Celtel, an African mobile telecoms company, in 1998, when Africa was considered an unimportant and highly risky market by international operators and commercial investors.

Over the following seven years, we supported the company through the multiple challenges faced by a start-up in a nascent sector, including by introducing partners in Zambia and Malawi, supporting further fundraising and giving strategic and operational input. By 2005, the risk of investment had reduced significantly. When we sold our investment to Mobile Telecommunications Company of Kuwait, Celtel had become a multinational business operating in 13 countries, serving eight million customers and supporting a huge network of local airtime sellers.

Celtel's success paved the way for the explosion of mobile telecoms across Africa and led to profound impact at multiple levels of society, especially in remote communities.

Commercial investment and the role of DFIs

Commercial investors invest where expected financial returns justify the risk, effort and cost of investing. Commercial capital flows into a market when investors believe enough such investments exist to warrant dedicating resources to finding them.

Like other DFIs, we aim to increase capital flows to underdeveloped markets so countries can finance their own way out of poverty. DFIs focus on less-developed or fragile markets and on sectors most important for economic growth.

This focus means DFIs typically take more risks. These can include market risks such as regulatory or political uncertainty, and other risks related to the businesses themselves, such as unproven strategies or inexperienced management teams. However, DFIs are specialist investors, skilled at assessing and mitigating those risks. We often invest for longer periods, a decade or more. We are more engaged with our investments, selecting the right management teams and raising environmental, social and governance standards.

On a portfolio basis, the additional risk DFIs accept means we typically have lower financial returns and experience more failures than commercial investors. DFIs, however, are always making commercial judgements about the prospects of success and often individual investments may have good financial returns.

The line between where DFIs and our commercial counterparts invest is not a clear one. DFIs often cooperate with commercial investors on individual deals. Sometimes, a DFI's willingness to invest encourages commercial investors to participate alongside. In other cases, a DFI's particular expertise or long-term perspective enhances a business for other investors. Furthermore, DFIs will often invest in young companies, where the risk of failure is highest. Once the business has grown and success is more assured it may attract private investors. A DFI's early investment efforts may even attract private capital to an entire region or sector.

How we are different

Although all DFIs have the same dual mandate and often partner on investments, each executes its mandate differently. CDC has some key differences from other DFIs. We focus exclusively on Africa and South Asia, because this is where most of the world's poorest people live, and we prioritise the hardest regions. Because we invest in such challenging countries, we must work hard to generate suitable investments and actively manage them over long periods before we can exit. Finally, we more often invest in equity because, despite its higher risk profile, we can offer a greater degree of engagement and support to companies and therefore achieve more impact. Such an approach, however, results in a riskier portfolio, with greater financial volatility.

Over the past five years, we have declined investment opportunities that could achieve significant developmental impact because the risk of failure was too great relative to the potential return if successful. Our new strategic framework will allow us to innovate and complete more of these investments funded by a separate pool of capital that can accept lower portfolio financial returns. This will open up further developmental impact at greater scale. We have successfully piloted this approach, which we describe further in the Innovation section of this document, in partnership with the Department for International Development (DFID), and we are ready to expand it.

✚

Our strategic positioning

We make investments with a range of risk/return profiles to build a balanced portfolio and to achieve different impact objectives:

Lower ← Risk → Higher

	Development Partners International (DPI), Pan Africa	Indorama, Nigeria	Feronia, Democratic Republic of the Congo
CDC investment	DPI is an African fund manager investing in established and growing companies across a range of sectors. In 2013, we anchored DPI's second fund, agreeing the investment strategy and fund terms. We made an early $75m commitment so that others could follow with confidence, and provided extensive support to DPI to create a more investor friendly proposal. This had a catalytic effect and the final fund totalled $724million, with $80m from other DFIs and $569m from 35 private investors, including a number for whom it was their first capital commitment to the Africa region.	Indorama was supported by CDC, other DFIs and commercial lenders to expand its existing plant in the Niger Delta and develop a new urea fertiliser line. The output, which uses otherwise flared gas, will boost local agricultural productivity, which is critical to Nigeria's long-term food security. By offering lending for a longer term than commercial banks, DFIs helped increase the commercial viability of the project. DFIs also required the business to follow IFC Performance Standards during operation and construction, ensuring the implementation of international environmental and social standards on the project.	Feronia is a 105-year-old palm-oil business located in a remote area of the DRC. Before we invested, the company was on the brink of collapse after suffering years of neglect under its previous owners following the Congolese civil war. Our investment was the only way to secure the employment of 9,000 people and the livelihoods of many thousands more. With our support, Feronia has embarked upon a significant, long-term investment programme to return the company to commercial viability, whilst implementing an Environmental and Social Action Plan to enhance key community infrastructure.
Expected impact	+ Mobilisation of commercial investors. + Successful fund manager able to graduate beyond DFI capital.	+ Job creation and improved environmental and social standards. + Limited mobilisation of commercial investors and mobilisation of other DFIs.	+ Significant job preservation and provision of key community services. + Mobilisation of DFIs only.

Our strategic priorities

Over the next five years, we will invest to transform economies, businesses and lives in Africa and South Asia.

Developmental

We will embed development throughout CDC to maximise our impact.

See pages 12–25

Responsible

We will invest responsibly, and persuade others to follow suit.

See pages 26–29

Innovative

We will address key development challenges in new ways.

See pages 30–33

Enduring

We will grow in response to market need, ensuring value for money for the UK taxpayer.

See pages 34–37

We will:

- Invest only in Africa and South Asia, where the world's poorest people live.
- Prioritise investing in poorer and more fragile countries, and the sectors that create the most jobs.
- Develop a world-class framework to maximise our impact. We will integrate this with our investment process and deepen our development expertise.
- Mobilise private capital alongside our investments, and find new ways to partner with investors to increase our own impact.
- Achieve a broad range of impacts in addition to our main aim of creating jobs.
- Support the UN Global Goals, including women's economic empowerment and climate change.
- Undertake more evaluations to enhance our understanding of the best ways to support long-term positive change in our markets.

We will:

- Set high environmental, social and business integrity standards and provide practical assistance to businesses and investment fund managers.
- Always ensure our capital or expertise supplements what private investors will provide.
- Increase our transparency and strengthen our approach to tax practice amongst development finance institutions (DFIs).

We will:

- Invest to transform whole sectors.
- Invest in new business models and nascent or failed markets.
- Take calculated risks to unlock impact we could not otherwise achieve.

We will:

- Build our team of outstanding professionals, who are dedicated to achieving development impact through their commercial judgement.
- Expand our local presence by opening country offices.
- Manage and mitigate risks, recognising they are inherent in our mission, through continuous improvement of our risk policies and procedures.

Developmental

We will emphasise development throughout CDC to maximise our impact. Here we explain the impact we want to achieve; how we achieve it and how we select investments and track our actual impact.

The impact we want to achieve

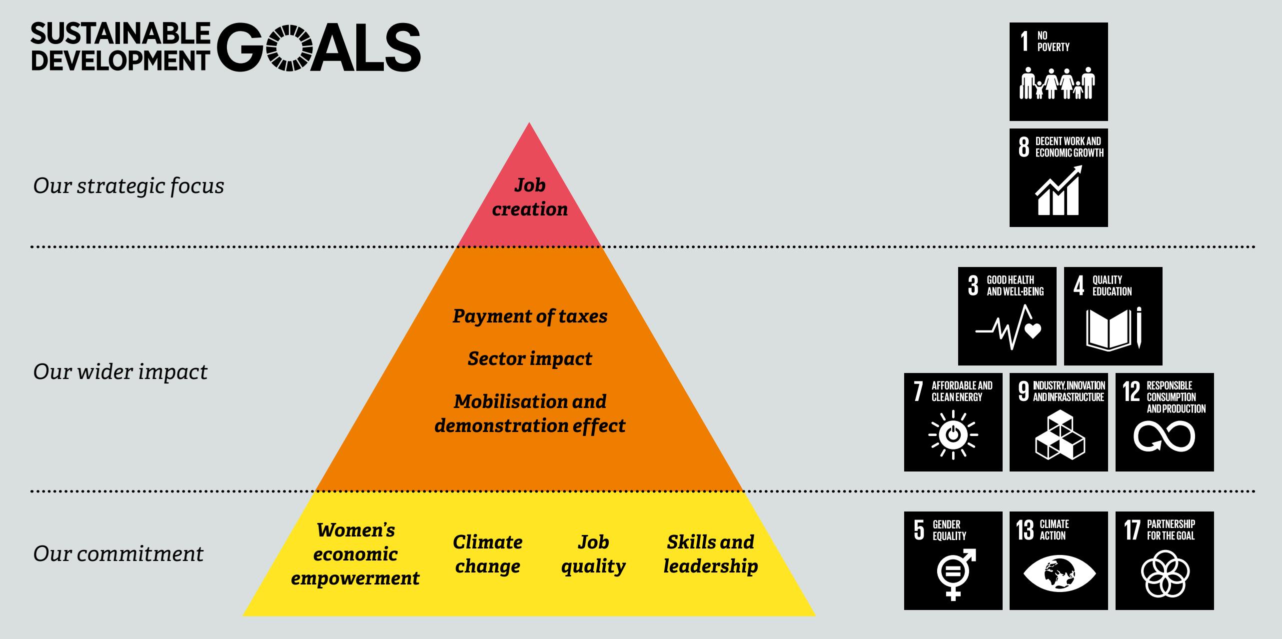
Our investments lead to a broad range of developmental impact, which ultimately has a transformative effect on sectors and countries' economies. Job creation remains our primary strategic focus, as it is the main route out of poverty.

However, we will contribute to the achievement of many of the Global Goals, leading to the elimination of poverty (Goal 1). Our strategic focus on jobs prioritises Global Goal 8 on decent work and economic growth. Our broader impact includes helping remove market constraints in energy and infrastructure (Goals 7 and 9) and improving access to essential goods and services, such as health and education (Goals 3 and 4), both directly and through tax contributions. We will also mobilise additional sources of capital from partners because this is key to increasing the funding available to achieve the Goals (Goal 17).

We are committed over the next five years to supporting women's economic empowerment (Goal 5) and combatting climate change (Goal 13).

Job creation
We prioritise job creation because it gives people the income, opportunity and dignity to live better lives. In the poorest regions of the world, gaining or keeping a job can transform an individual's – and their family's – prospects and choices.

The 2013 World Development Report on jobs was clear that "job-related events are the main escape route from poverty in developing and developed countries alike". In ten of 18 countries considered, income from jobs explains more than half of the change in poverty. In another five, it accounts for more than a third of the reduction in poverty.



Investment works

Adding value by increasing resource efficiency

We worked with Narayana Health, an affordable healthcare company in India, to improve resource efficiency in areas such as water and energy conservation, while maintaining high standards of care. Following a detailed water audit and water conservation campaign, Narayana Health has achieved a 33 per cent reduction in water consumption across all its facilities.

Payment of taxes

The mobilisation and effective use of domestic resources are central to the Global Goals, as stated in the Addis Ababa Action Agenda. Tax revenues as a percentage of GDP are particularly low across Africa and South Asia. In the UK, tax represents 25 per cent of GDP[1]. In Pakistan it is 10 per cent and just 1.5 per cent in Nigeria. When our investee companies grow their profits, this increases the taxes paid to national exchequers, which enables the provision of essential infrastructure and public services.

We require our investee companies to pay taxes in the countries where they operate, and since 2012 our investee companies have paid £5.9 billion in local taxes.

Sector impact

Our investments generate a broader range of impact in support of the Global Goals, beyond creating jobs. For example:

+ Infrastructure investments generate and deliver more reliable power to households, schools, clinics and governments, as well as businesses. In sub-Saharan Africa alone, over 600 million people lack access to electricity.
+ Investments in financial institutions reach financially excluded people, who have little access to banking.
+ Manufacturing investments have a broad impact on supply chains, and exporters make a valuable contribution to a country's balance of payments.
+ Investments in food and agriculture improve productivity and enhance livelihoods, especially amongst smallholder farmers. They also help meet the rising demand for food and the need for food security.

Mobilisation and demonstration effect

There needs to be a huge increase in funding if the Global Goals are to be met by 2030. Aid will not be enough. And neither will investments we make alone or with other DFIs. We must make considerably more of the impact of our capital by mobilising the much larger pool of private investors.

When we make successful investments in a business, sector or region previously viewed as unsuitable by private investors, it can help demonstrate to them that the actual risks may be lower than they perceive. We work to encourage additional investment either alongside our investment, or many years later, when investors see progress or positive returns.

Women's economic empowerment

Women's economic empowerment through labour participation is fundamental to achieving gender equality and improves economic growth, children's health and education, and business performance. There is huge untapped potential: 31 per cent of women participate in the Indian labour force compared to 76 per cent of men.

Climate change

The private sector has a central role in mitigating and adapting to the impacts of climate change, as reflected in the 2016 Paris agreement. We will assess climate change risks and opportunities in potential investments, incorporating it into our due diligence processes, and developing measures to reduce energy and water consumption, and potential greenhouse gas emissions, through audits, feasibility studies and additional investments under a new Resource Efficiency Facility (see page 33).

Our commitment to women's economic empowerment

+ Through our Code of Responsible Investing, we insist on no discrimination in our investee businesses.
+ We will also look for ways to create economic opportunity for women as employees, suppliers and customers.
+ We will monitor and evaluate the impact of these gender-related activities.
+ We'll share examples of good practice and our experiences with stakeholders, and work with other interested DFIs to improve the ways investing can promote women's empowerment.

Our commitment on climate change

+ We will work with our portfolio companies to improve resource efficiency and use of renewable energy sources.
+ We will ensure that new infrastructure investments are climate-resilient and take consideration of low carbon transition.
+ We will continue to engage with the broader community to share experiences, learn from others and explore co-investment opportunities.

1. Data from the World Bank exclude social security contributions.

Investment works

Providing quality jobs

Hawa Zaveli Mgulunde works at the Chai Bora tea factory in Mafinga. The regular income has allowed her to pay for HIV treatment and given her the stability to plan for her children's future. Hawa says Chai Bora's success has been important to the community: "Tea has really changed people's lives. People have been able to build houses."

We invest in Chai Bora through the Catalyst Fund I.

Job quality

We know that to improve people's lives, providing access to not just a job, but a good quality job, is vital. This can be challenging in countries with weak labour and health and safety laws, but through our investment, support and expertise we can help businesses overcome these challenges. For example, we build the capacity of our investee companies and investment fund managers to meet good international practice in areas such as occupational health and safety.

Skills and leadership

The quality of leadership is the largest single factor in any company's success or failure. Africa's next generation of local business leaders is emerging, but will need greater support to develop the skills essential for building the businesses that will be the next success stories on the continent.

While business networks are common in developed countries, they're not in more nascent economies. That's why we set up The Africa List. In each country, we identify 100 high-performing companies and ask their CEO or Chair to nominate two exceptional future leaders to join. Currently operating in Uganda, Tanzania, Ethiopia, Zambia and DRC, members connect, share ideas and develop as leaders, including by accessing leadership and management training.

Our ambition is to be operating in ten countries by 2021, with a network of 2,000 next-generation CEOs, creating a powerful network of future African business leaders.

Our commitment to job quality

+ We will establish a framework to monitor and assess job quality in our investments.
+ We will strive to ensure our businesses adhere to International Labour Organisation standards on forced and child labour, as well as non-discrimination, freedom of association and health and safety.
+ We will better understand how we can improve job quality. For example, we've commissioned an independent evaluation of the garment industry in Bangladesh to understand how management training can improve job quality and productivity.

Achieving impact

Our purpose is to achieve developmental impact. We do this through commercial investment skills and judgement.

The dual objectives of our mandate, to improve peoples' lives and make a financial return, always go hand in hand. Failed companies cannot sustain jobs or pay taxes. Our goal is for businesses to thrive, generating jobs and paying taxes not just during our investment period, but for many decades beyond. This principle infuses everything we do.

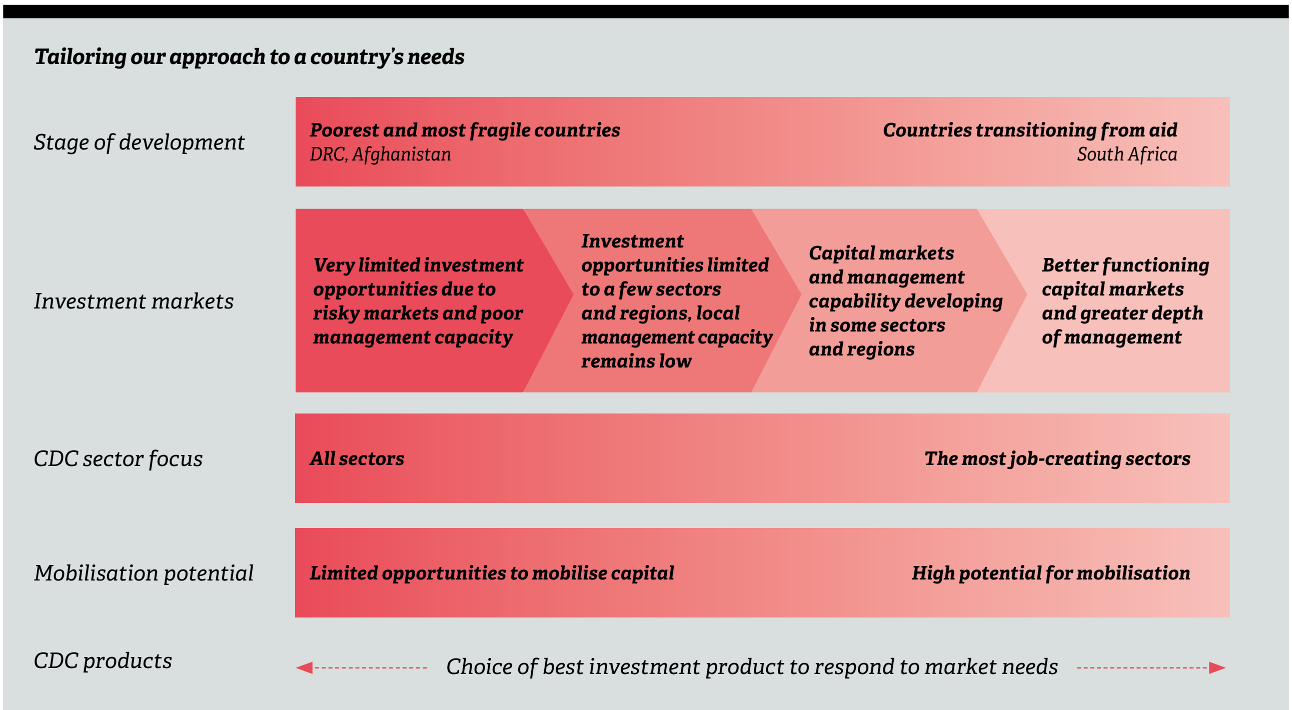
Although impact is enhanced through good management, the key to achieving it is to select the right investments. To do this, there are four essential criteria: (1) countries and regions, (2) sectors; (3) products, and (4) partners. Here we describe our approach to each for the next five years.

1. Countries and regions

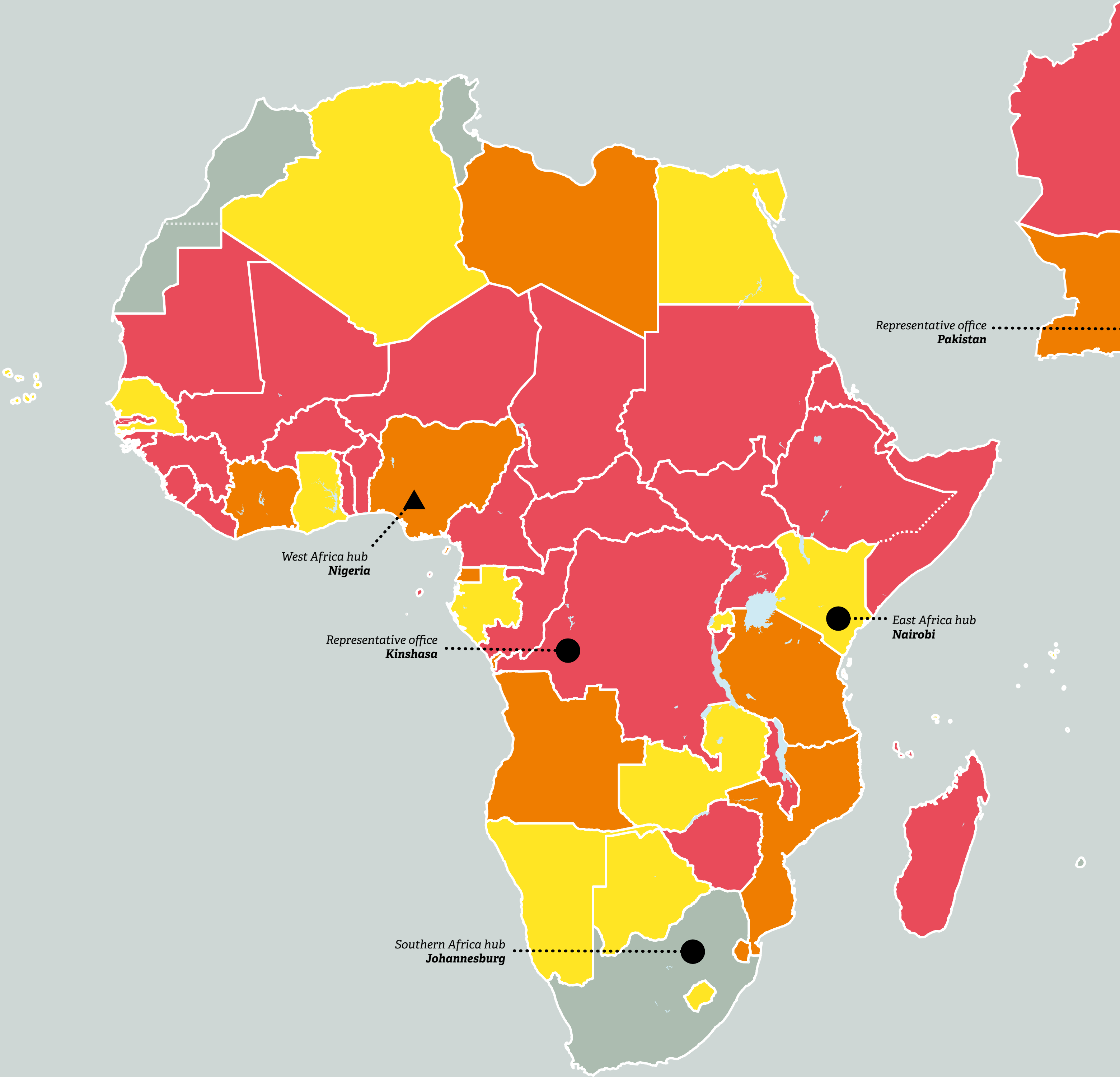
Supporting countries in their transition to vibrant trading economies

In the poorest and most fragile states, investable opportunities are rare, and often have to be created, sometimes over many years. The business environment is weak and management capacity lacking, meaning private investment is severely limited and the risks are very high. We often invest alone or with other DFIs only. We will invest across the economy where businesses can meet our high standards.

As countries become more developed, their business environment and management capacity starts to improve, and investment opportunities begin to increase. We will become more selective by investing in sectors with the greatest impact, while always ensuring that our capital or expertise supplements what commercial investors provide. For example, over the past five years, Kenya's capital market has developed and its economy has grown. We now focus on the sectors where job creation is greatest and where we can bring particular value through our capital and expertise. We also focus on mobilising third-party capital and helping capital markets to develop, so the reliance on DFIs can reduce over-time.

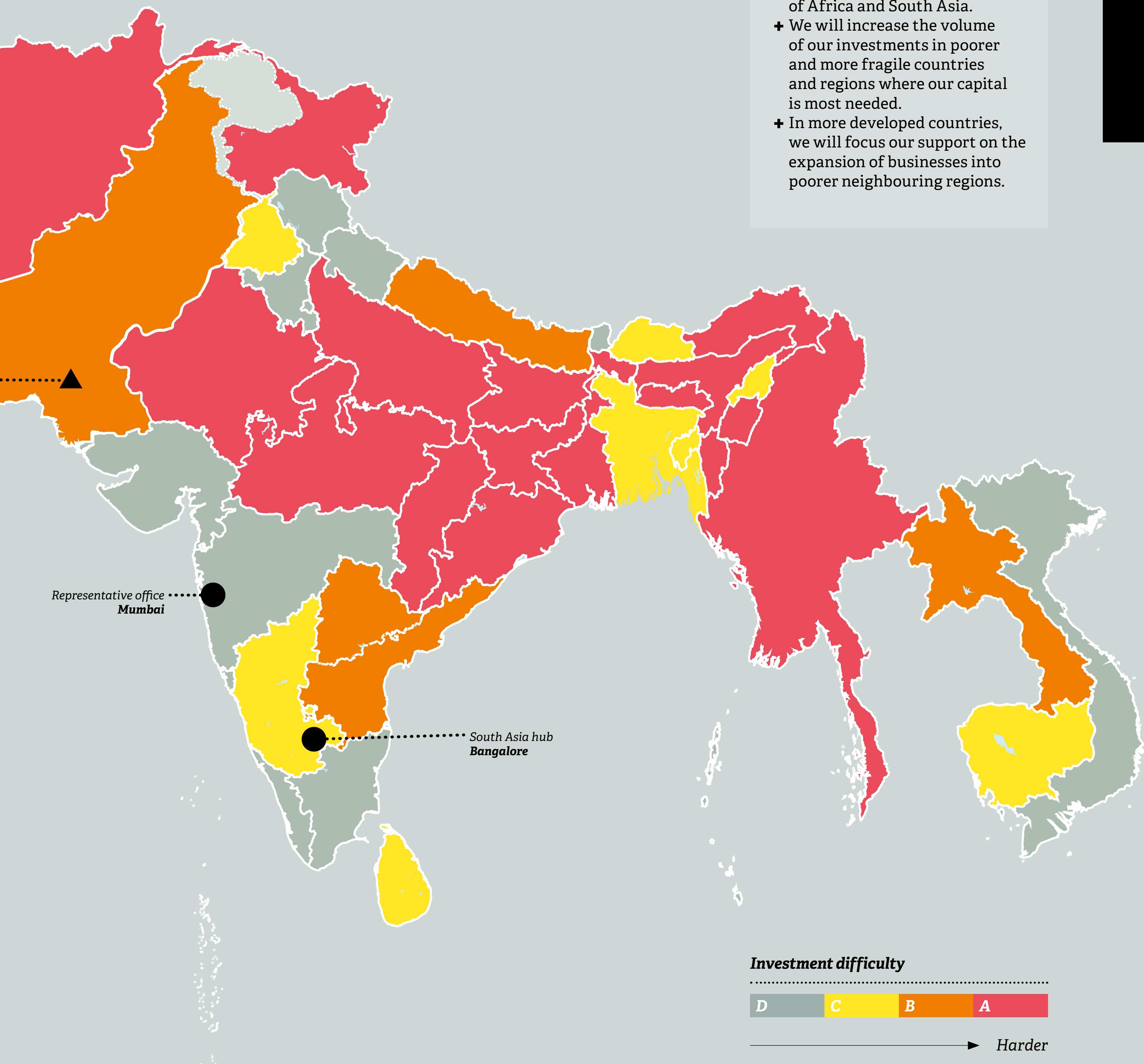


Targeting capital where it's most needed



Where we invest

- We invest only for the benefit of Africa and South Asia.
- We will increase the volume of our investments in poorer and more fragile countries and regions where our capital is most needed.
- In more developed countries, we will focus our support on the expansion of businesses into poorer neighbouring regions.



Investment difficulty

D C B A

Harder

The colours on this map correspond to the country rankings used in our investment screening tool, the Development Impact Grid. Find out more on page 46

Our regional offices

2017–18 expansion plan

The boundaries, names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

The capital markets and businesses in countries such as South Africa and Morocco are integrated across Africa and vital for the success of poorer countries. So we invest in these countries as regional hubs to reach people in poorer countries. We do this by investing in businesses with headquarters there, with strong management teams and proven business models, encouraging them to expand into poorer, more fragile countries.

Ultimately, we want private capital markets to provide the finance that growing businesses need to create jobs, reduce poverty and drive economic development. Countries can then transition away from our help altogether. In 2012, we exited from a number of countries in Asia and Latin America.

Investing in India

Many Indian states are larger than African countries and just as poor.

For example, Uttar Pradesh has a larger population than Nigeria (200 million) and a lower GDP per capita than Tanzania. The sheer size and diversity of India means we consider each of its 36 states and union territories individually.

Just as in Africa, our investments in India prioritise the poorer and most capital-starved states and populations. However, sometimes an investment outside the poorest regions can also have impact – for example, solar panels should be located where sun is most plentiful, but the power can supply under-served states. We will also invest to support a company's expansion into poorer states, and we encourage Indian companies to expand across South Asia and into Africa. We will make no more than 38 per cent of our investments in India.

Investment works

RBL Bank

Our investment has helped the RBL Bank expand from its headquarters in Maharashtra into poorer Indian states. In rural Madhya Pradesh, we worked with the bank to develop a financial inclusion and literacy programme that reached an estimated 300,000 people, like those shown here.

✚ Investing in fragile and conflict-affected states

41 per cent of our post-2012 portfolio is invested in fragile and conflict-affected states (compared to 24 per cent in 2011). No other major DFI achieves more than about 25 per cent. Over the next five years, we will take the following steps to strengthen our footprint in these states:

1. We will strengthen our local presence to deepen our understanding and to stay close to these markets.
2. We will support strong regional businesses to expand into more difficult countries.
3. We will innovate with different corporate structures, so that high calibre people can be engaged across multiple investments in smaller economies.
4. We will, through the Africa List, build networks of future business leaders and support their development.

Investment works

Providing a facility to help businesses during the Ebola crisis

During the Ebola crisis in Sierra Leone, while aid agencies provided vital humanitarian assistance, we worked to support the struggling private sector. We designed a $50m facility, working alongside Standard Chartered Bank, to provide much-needed liquidity to keep essential businesses running during a very difficult period.

2. Sectors

Prioritising the sectors that create the most jobs

We focus on seven priority sectors that have the greatest propensity to create employment.

Our sector-specific investment teams develop strategies to maximise our impact in each sector to identify key development needs and targeting our investments businesses that will meet those needs.

You can find out more about our tailored approach to each sector on pages 39–45.

✚ Focus on sectors

- Infrastructure
- Construction
- Financial institutions
- Education
- Manufacturing
- Health
- Food and agriculture

3. Products

Selecting the best approach for each investment

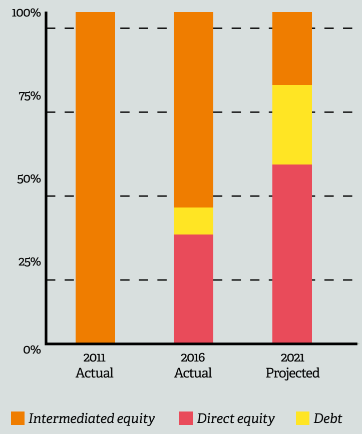
We provide capital in many ways (equity, debt, structured instruments, guarantees or trade finance) to meet our investees' needs flexibly. We invest both directly, where our team makes the investment decision and looks after the portfolio, and indirectly, where investment selection and management is made by a carefully selected third party, normally an investment fund manager. Over the next five years, we will supplement this with small amounts of grant finance.

We re-established the capability to invest directly from 2012, and now have a balanced approach to all our products, with direct investments comprising around two-thirds of our annual commitments. We expect this to continue over the next five years. Longer hold periods will weight our portfolio towards direct equity over time, as shown in the illustrative chart (right) based on current product projections for the next five years. The overall increase in our investment volumes over this ten-year period means that, in absolute terms, our annual investment in intermediated equity will not decrease.

Each product has different benefits, so taking a flexible approach enables us to achieve a wider range of impact objectives, as well as meeting the specific needs of potential investee businesses.

We have three main product groups: direct equity; debt (including guarantees and trade finance) and intermediated equity (principally through funds) – plus grant finance.

Portfolio structure 2011–2021



Different products achieve different results

	Direct investments	Indirect investments
Best for	+ Selecting investment opportunities that will maximise impact + Engaging closely with investee companies + Supporting larger or high growth companies + Longer investment periods	+ Developing local investment capacity + Mobilising capital from commercial investors + Reaching more and smaller businesses
Common impact	+ Both direct and intermediated investment can contribute to job creation and economic growth in targeted countries + Both can support sector-specific strategies + Both can help improve environmental, social and governance standards in investee businesses	
Challenges	+ Requires more in-house resources to select and manage investments + Reach limited by size and location of the CDC team + Can't support small companies	+ Delegation of individual investment selection to the fund manager, which may have a wider range of priorities than solely impact + Shorter investment period (five to seven years) + Fewer funds in the hardest countries
Case studies	**Pristine Logistics** In 2015, we invested in Pristine Logistics, a developer of greenfield rail freight terminals operating in some of the least-developed regions of India. This type of infrastructure is essential for enabling local trade and economic growth. There is a dearth of commercial capital for infrastructure in India's poorest states due to significant inherent risks.	**Frontier Fund** We invested in Frontier Fund, the first Bangladesh-focused investment fund, in 2009–10 alongside partner DFIs as the mandate was considered too risky by private capital. Under DFI guidance, the fund manager has developed Frontier Fund's investing capacity alongside a successful track record of investments in Bangladesh. We've maintained our commitment to the team and invested in Frontier's successor fund, Frontier Bangladesh II, in 2015.

Over the next five years, each product will have different investment priorities

Direct equity

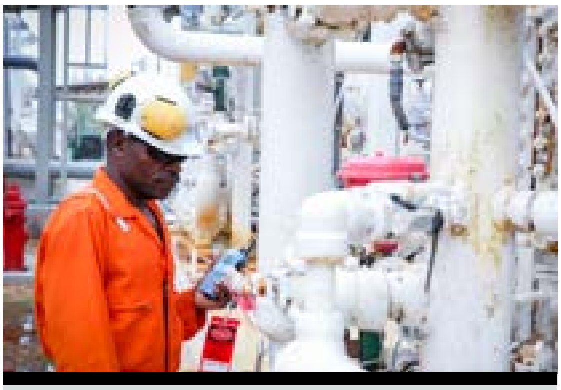
Our focus

+ Businesses that directly serve poorer communities.
+ Innovative business models, especially where these lower the cost of essential goods and services.
+ Larger, well-managed businesses with a desire to expand their operations into poorer regions.
+ High-growth companies capable of becoming regional or national champions.
+ A range of equity ownership stakes, from minority to majority, with a strong preference for significant influence.

Debt

Our focus

+ Filling the gap created by an undersized banking sector in Africa and much of South Asia.
+ Stepping up where international banks are withdrawing due to regulatory requirements.
+ Infrastructure projects in priority areas such as power and transport.
+ Financial institutions to increase the flow of credit to SMEs, local corporates, residential mortgages and trade finance.



Investment works

How we use direct equity: Globeleq

In 2015, we took a majority stake in Globeleq, Africa's largest owner of independent power plants (producing 1,200 MW in five countries), to address the bottleneck in early-stage power development.

We established a new strategy, Board and management team to focus the company on a more developmental mission: to develop more new power across the whole of Africa, including in some of the most power-starved and challenging countries. Our plans are to add over 5,000 MW of new generating capacity in the next decade. Such an increase would have an enormous impact: indicatively, the current 1,200 MW of installed capacity supports an estimated 350,000 jobs and livelihoods.

Investment works

How we use debt: Irrawaddy Green Towers

In 2016, we made our first direct investment in Myanmar, providing a loan to Irrawaddy Green Towers to construct 2,000 telecom towers. The new towers will have significant developmental impact by increasing mobile connectivity.

The company employs more than 300 people and builds local capacity in Myanmar by encouraging skills transfer between expatriate and local engineers.

Intermediated equity

Our focus

- Reach more companies of all sizes across the priority sectors in our markets, focusing on the small and mid-size companies that particularly face a financing gap.
- Support the investment funds industry in Africa and South Asia during a difficult economic cycle, which will increase the importance of our role.
- Explore opportunities to increase mobilisation from a broader range of sources, such as domestic pension funds or philanthropic capital.
- Support first-time fund managers pursuing new strategies, such as in countries where the industry is yet to emerge.

Grants

We will now begin to make grants available to our investee companies where they will enhance development impact.

Our focus

- We will target specific activities such as assessing the entry into new markets or the feasibility of a resource efficient investment.
- We will make grants available only to management teams that have demonstrated their own financial commitment to the goal of the grant.

Investment works

How we use intermediated equity: our pivotal role in developing the investment fund industry

We helped pioneer the investment fund industry in Africa and South Asia in the 1990s. Despite early losses, we persevered and we're now the largest and most respected supporter of funds in these regions. Our reputation and 'seal of approval' is critical for establishing new funds, especially with first-time managers. Over the whole period, we have provided over $5 billion to funds in developing countries, which have mobilised $13 billion alongside us.

An independent working paper by Professor Josh Lerner of Harvard Business School[1] looked at the impact of our fund investments from 2004 to 2012. It found they had:

1. Built businesses and created jobs: funds had a positive impact on four measures of business success – revenues, profits, taxes paid and employment.
2. Built local capacity: we had a pioneering role in establishing an enduring private equity industry with the right people and skills to channel capital into countries.
3. Reached a broader range of businesses: funds enabled us, as a London-based organisation with finite resources, to provide capital to a broad range of businesses, particularly those that were difficult to access directly.
4. Mobilised capital: CDC-backed funds demonstrated that it was possible to invest successfully in challenging environments, and attracted third-party capital to these markets.

1. The impact of funds: an evaluation of CDC 2004–12.

4. Partners

Working with the right people

Like any investor, our success depends on the calibre of the people we support, whether management teams, Board members or investment fund managers. We will continue to establish CDC as a preferred investor, which will attract the right people who want us as their funding partner, and will continue to structure relationships that work for them as well as us.

Experienced entrepreneurs who understand what it takes to build a successful enterprise are rare, especially in the poorest regions of Africa and South Asia. We must also share the same values and business principles. We support training in investee companies, and more broadly through the Africa List.

Our selection process is highly influenced by finding the right people to work with, whose vision will determine the business strategy we back. This means we are flexible about adjusting our view of what can be achieved in a sector or country, and we will listen and respond to innovative strategies developed by a potential investee company or investment fund manager.

Building successful businesses with the right values helps to improve the whole business sector over time. The thousands of individuals who work in these companies will benefit from the knowledge and experience they gain well beyond the life of our investment. The skills they acquire will stay with them for their next step, whether it's a new job, raising a new fund or starting a company – and can be shared with others.

Mobilising private investors

We multiply the impact of our investment by mobilising private capital and demonstrating to investors that our markets are viable. Our intermediated equity strategy has been successfully mobilising private capital into funds alongside us since 2000 and we will build on this.

Our commitment on mobilisation

Over the next five years, we will work to encourage more private investment in Africa and South Asia:

- We will mobilise private capital alongside our investments; we will do this across all our product strategies where we have a track record of returns and impact.
- We will proactively demonstrate the viability of investing in these markets by sharing our expertise, knowledge and data.
- We will take advantage of our proximity to the City of London and our knowledge of local pools of capital in our markets to build more relationships with investors, such as pension funds and philanthropists.

Our framework for selecting investments and tracking actual impact

Maximising impact is at the heart of our investment process and culture. Over the next five years we will implement a world-class framework designed to select the right investments, manage progress against expectations and measure what we actually achieve, alongside learning about what works. We will increase development expertise throughout our organisation.

The first two of our four investment selection criteria – countries and regions, and sectors – have been designed into our first-level investment screening tool: the Development Impact Grid (for more details see page 24 and Appendix). This clear and simple tool grades the investment difficulty of each country (combining data on fragility, market size, income levels, ability to access finance and the ease of doing business) and ensures we prioritise job-creating sectors.

Our framework to maximise impact

We will use three increasingly granular approaches to select new investments:

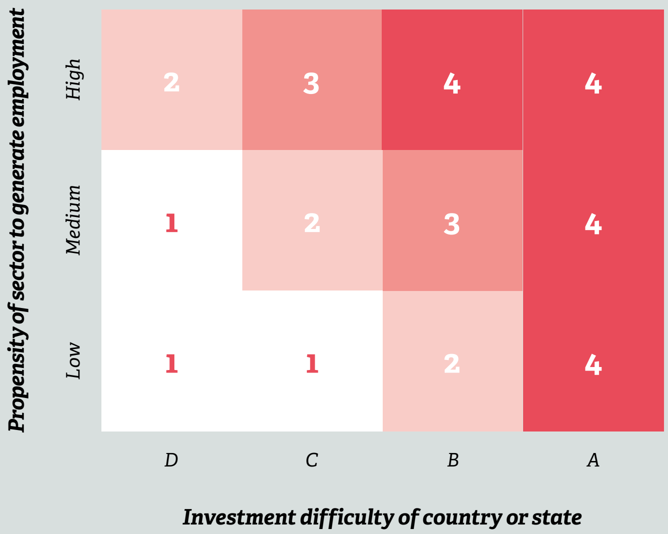
1. Our Development Impact Grid (see Appendix) will direct us to the more difficult regions and job-creating sectors.
2. Our sector knowledge will give us greater confidence about which investments can have the most impact.
3. We will develop, and publish on our website, an explicit and compelling case for every investment or fund commitment. This will state succinctly the most important impact we aim to achieve.

The case for each investment will give us a measure for success against which we can track progress over time. Importantly it will allow us to close the loop between the ex-ante case and the ex-post management and measurement of actual impact.

We will also measure and publish the annual portfolio-wide impact we have on jobs, taxes and mobilisation, and improve our knowledge through thematic evaluations.

This process will be central to how we make investments. We will implement it through close partnership between the investment teams and an enhanced Development Impact team.

The Development Impact Grid



The Grid has been highly effective in directing our portfolio. It allocates a higher score to investments in more challenging regions and job-creating sectors.

Every investment receives a score (1–4) based on how difficult the geography is (horizontal axis) and the propensity of the sector to create jobs (vertical axis). It incentivises investments in the hardest places and in sectors where successful investments will maximise new job creation. For example, an investment in a power plant in Sierra Leone will receive a maximum score of 4 as Sierra Leone is an 'A'-rated country (see page 47) and infrastructure is a high priority sector.

To ensure we are making investments which have the greatest impact, we will supplement the Grid score in our investment decision-making with two further steps:

1. We will examine each potential investment in the context of our sector strategies, and by its contribution to the impact we wish to achieve. These strategies identify the key development needs for each priority sector and help us target businesses that will help develop and grow these sectors in the way that has most impact.
2. We will clearly define the primary impact we want to achieve from every direct investment and fund commitment. The definition will be tailored to each investment and will cover a broader range of outcomes than is possible to capture in the Grid. It will allow us to track progress over time.

After each investment, we will measure and manage our actual impact by collecting and analysing a range of data at an investment, sector and portfolio level. We will supplement this by commissioning thematic evaluations to understand the link between investing and impact, especially in job creation. We will publish our results and share lessons widely with various stakeholders.

We will keep improving our understanding and management of the impact we can generate from different investments so we can adjust our investment strategy over time.

Tracking progress
We will monitor data on the impact we have, at three levels:

1. At the portfolio level
We will show annually how many jobs our portfolio created, both directly and indirectly, using market-leading methodology developed for us by industry experts. We will also publish the taxes contributed to local exchequers and how much third-party capital we mobilise.

2. At a sector and thematic level
We will collect and publish annual aggregate data for certain metrics in each sector. In infrastructure, for example, we will track power generated and added capacity. We will also monitor and report selected job quality, gender and climate change indicators. On climate change, for example, the indicators may cover renewable energy and resource efficiency.

3. At individual investment level
We will track our progress towards the intended impact for every new investment or fund commitment, using whichever metrics will help us best understand if we are achieving our ambition. This may include indirect as well as direct impact. For example, if investment is in a manufacturing start-up, the desired impact may not just be creating jobs and paying taxes, but new businesses created in the supply chain. We can then compare these to our long-term vision of impact. With these measures in our portfolio management process, we will be able to agree what to do to enhance impact, in the same way we use financial measures to guide our strategic and operational work during the life of an investment.

Evaluation
Beyond monitoring data from our portfolio, we will also commission and publish at least ten independent evaluations to better understand important related themes, such as the affordability of products and services for poorer segments of society and the impact of private healthcare companies on overall healthcare systems. These will bolster our knowledge, guide our future investment strategies, and contribute to the wider understanding of the development finance community.

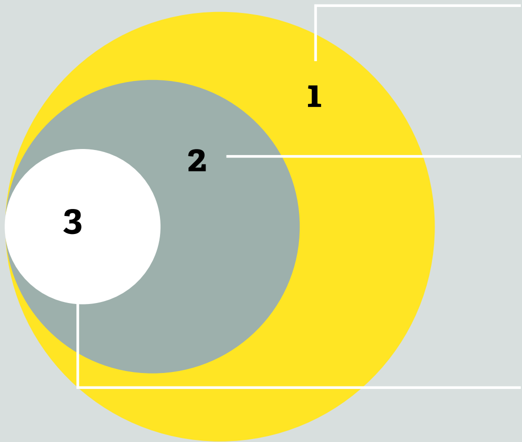
Our team
Achieving bold and ambitious impact on development is as much about our people and culture as it is about processes and measurements.

In building the team to 230 people, from 50 in 2011, we have hired individuals who have made a conscious decision to join CDC because of our mission, ahead of financial reward.

We attract people who want to use their considerable skills and commercial judgement to invest successfully in some of the hardest places on earth. They are both motivated by the challenge and inspired by the results they can achieve. As a result, considering the impact we can have is part of the investment process, as described above, and is welcomed and respected by the investment teams.

The executive team is supported by three development experts on the Board, who contribute a range of complementary approaches and experiences.

Tracking progress: impact monitoring at three levels



1. Portfolio
+ Jobs created
+ Taxes paid
+ Third-party capital mobilised

2. Sectors and themes
+ Aggregated metrics to track impact in priority sectors
+ Aggregated metrics to track impact in focus areas: gender, climate change, job quality

3. Investments
+ Bespoke metrics to track progress of intended impact

Understanding the bigger picture: development impact evaluations

10+
independent evaluations

- Exploring important themes in our portfolio
- Informing our strategic thinking
- Sharing results with the broader development community to increase understanding of development finance

Investment works
The link between power and jobs in Uganda

Our most recent evaluation established that the large increase in Uganda's power provision between 2011 and 2014 resulted in a fifth of the country's total increase in GDP over that period. It also led to the creation of an estimated 201,500 new jobs and livelihoods, nearly half of which were for women, and nearly 90 per cent for unskilled workers.

Other household benefits included people feeling safer at night, better quality healthcare and education, and increased home-study time, especially for primary school children.

Responsible

We will invest responsibly and influence others to follow suit.

How we invest is just as important as the amounts we invest.

Our vision to support the creation of jobs in the poorest countries in the world won't come at any cost. Being a responsible investor means working with honest companies and business partners; protecting workers' rights; providing social safeguards, and protecting against environmental damage and the harmful effects of climate change. In doing so we seek to set high standards across the markets we invest in and provide practical assistance to help the companies and funds we invest in to improve their business practices.

We will lead by example, continually pushing ourselves and our peers in the development and investment community to be at the forefront of responsible investing.

It's important that our activity does not distort the market, so we also apply principles to make sure that when we invest it is additional to what the market would have provided (see 'Additionality' box).

Additionality

We seek never to distort the market or displace commercial investors. There is no point in offering finance and support that is already available. Our purpose is to fill gaps and offer value to supplement what the private market will provide.

Our approach to additionality was agreed in 2014, following an external review commissioned from a market expert.

Our guidelines stipulate that all new investments must demonstrate either or both:

- Financial additionality – providing capital that is not offered by the private sector in sufficient quantity, or on reasonable terms, or at all.
- Value additionality – providing value beyond our capital, which the market is not providing. This can include expertise to improve business processes or standards, such as environmental, social or business integrity standards, or our support for a more developmental business strategy. This is often valued by our investees just as highly as our capital.

We deliberately approach this difficult topic with clarity, honesty and objectivity and take our commitment to additionality seriously. To make sure we take the right decisions and learn from experience, we have tracked additionality in all investments made since 2012. In cases where only value additionality is provided, we will externally evaluate the investment after a suitable period to assess what value we added in practice.

Setting a high standard with our Code of Responsible Investing

Our Code of Responsible Investing sets out how we invest responsibly in environmental, social and business integrity matters. We have reviewed and updated the Code for this strategy period to ensure that we remain leaders in the investment community for responsible investing. One of the areas now reflected in the Code is standards on animal welfare (see 'Animal welfare' box).

One of our key objectives is to work with businesses that do not yet reach all international standards and help them to work towards achieving them. This is not always an easy task, particularly in countries or sectors that have lower standards of regulation or practice. However, this is a fundamental way we can support responsible growth for the economy, communities and workers.

Animal welfare

We have updated our Code of Responsible Investing to reflect internationally recognised standards of animal welfare, and we will work with relevant portfolio companies to help them understand and implement changes.

In many of the countries where we invest, national regulations on animal welfare are not well-defined and many are unfamiliar with international standards. This is an area where our work will be long term, because the standards will require a shift in attitudes and a better understanding of how changes to practices and processes that will incur costs, can also bring benefits.

Adding value throughout the investment period
It takes more than money to grow a viable business and achieve development outcomes. So alongside capital, we invest our time and expertise, and share our experience and networks to help investee businesses grow and have a positive impact on workers, the environment and communities where they operate.

Our long-term support is important, because improvements in environmental, social and business integrity standards often require a shift in cultural attitudes, and typically materialise only over the longer term. Environmental and social considerations, such as climate change, are often represented as risks to business. However, we make the case that proactively managing and integrating these into business strategy and operations makes companies more successful and more sustainable.

Opportunities can include improved labour productivity, supply chain efficiency, access to new markets, and cost savings through efficient use of resources. Sound environmental and social management can increase a company's value and substantially improve the chances of attracting further investors. Plus, many of these improvements can contribute to the achievement of the UN's Global Goals.

We will enhance our ability to add value over the next five years through the expansion of our network of local offices, which will allow us to be even more engaged with our investee companies.

Providing leadership
We will share our expertise more widely over the next five years. While we work primarily with our investee companies and investment fund managers, we know we also play an important leadership role across the investment industry. So, we will share our knowledge and advice on implementing environmental, social and governance standards more broadly. This can include guidance reports for investors, our free online toolkit (http://toolkit.cdcgroup.com/) and regular training.

We will also engage with external stakeholders, including NGOs, on important responsibility issues such as modern slavery, child labour and land rights.

« Pristine embarked on the environmental and social journey with a rather tentative and apprehensive mindset, even though we knew, inside, it was the right thing to do... Two years down this road, we have no residual traces of agnosticism. It is good for the ecosystem, it's great for the people around you and it is actually super for the business. »

Amit Kumar, Director, Pristine Logistics, India

Investment works

Improving working standards in supply chains

Our investment in Daraz, an e-commerce marketplace operating in Pakistan, Bangladesh and Myanmar, shows how we can support high standards in a single company, but reach many others in a meaningful way. Daraz's clients are hundreds of local garment manufacturers and their supply chains. Garment manufacturers in South Asia typically have low labour standards and poor working environments. With our support, Daraz is aiming to become a member of the Ethical Trading Initiative and we are working with the company to introduce a new Code of Conduct for suppliers that will set standards and ensure workers' rights are respected.

Investing with integrity

Business integrity
Our mission leads us to invest in places that present significant business integrity risks, such as potential exposure to fraud, corruption, money laundering and international sanction regimes. We take all reasonable measures to mitigate these risks. We conduct a thorough business integrity due diligence process prior to investment, and thereafter monitor the practices of all our investees.

Since 2012, we've considerably grown the size and capability of our Business Integrity team so we can provide more support to our investee businesses and manage our own risks. Over the next five years, we will work closely with our investee businesses to better understand the integrity challenges they face and help them strengthen their prevention controls. In doing so, we will continue to support and promote the UK's stringent requirements and draw upon international best practice.

By helping drive up standards, we will also aim to demonstrate to international investors that business integrity risks can be managed to attract international financing to challenging countries.

Tax
Tax revenues are essential for countries to be able to finance their national development priorities and provide their citizens with essential infrastructure and public services such as transport, health and education.

Consequently, tax payments are an important part of our investee companies' impact. We require them to pay their taxes in the countries where they operate, which between 2012 and 2015 resulted in £5.9 billion paid to local exchequers.

Where we can, we invest directly into the country or region where an investment is located. However, this is not always possible and in these cases we may use an offshore financial centre. We never use offshore centres to avoid tax. We use them because the countries we invest in do not have the stable administration and legal systems necessary to invest safely, and so that international investors can invest alongside us. Indeed, pooling capital from investors in different locations often requires the use of a tax-neutral country to hold the investment.

We have reviewed our tax policy to ensure we remain at the forefront of DFI practice and we are committed to being a leader on tax transparency. In addition to not making new investments through jurisdictions deemed harmful by the OECD's Global Forum, we now require that the jurisdictions we invest in are committed to implementing the international standard of automatic exchange of information. We will review our tax policy annually with DFID to make sure we keep pace with evolving standards (such as those being developed by the OECD/G20) and international best practice.

We look forward to the time when we can work through onshore financial centres in the markets where we invest, and have sponsored a feasibility study to help with that process. Kenya is presently considering setting up an international financial centre in Nairobi and Rwanda aims to make Kigali an onshore financial centre for central Africa.

Transparency
As a publicly-owned body, we understand that it's important to operate transparently. The information we publish about our investments and operations holds us accountable and supports our mission, by demonstrating our successes for the benefit of other potential investors. Our online searchable database allows users (including potential investors) to access information on every investment in our portfolio.

But we want to do, and can do, more. We have a strong track record to build on. We were the first DFI to sign up to the International Aid Transparency Initiative and one of the first to make our investment information publicly available.

We aim to be the most transparent DFI, balancing the public nature of our organisations with the commercial status of our investee businesses. We will expand our reporting, increasing the amount and accessibility of information we provide online, for example, by providing additional information about the development rationale of our investments. As one of the largest investors in Africa and South Asia, we will also work to make our data useful to others who may be considering investing there.

Engagement with stakeholders
On all these issues, we'll engage more with stakeholders, including NGOs, and we will work with other DFIs to lead good practice.

Land rights

Land acquisition in emerging markets can harm local communities if not managed properly. Investing in land that has a history of unclear or contested ownership is particularly problematic.

Where possible, we share our expertise with others. In 2016 we co-authored *A guidance note on managing land legacy issues in agribusiness investments*. This guidance aims to help local communities define their rights, and companies reduce their risks to create equitable outcomes for all parties. We also actively work with a range of NGOs, companies and investors via the DFID-supported Interlaken Group to promote more responsible practices in land acquisition.

Innovative

We will address key development challenges in new ways.

Our ambition

Our ambition is to remain at the forefront of private-sector development thinking and practice in order to achieve the highest impact.

Our pioneering history shows that when we innovate, we are able to enhance whole sectors or markets. Whether establishing Kenya's tea industry, backing the first generation of mobile phones in Africa, or investing early to help India's important tech industry, we have proved we can make a real difference by having a strong vision and taking bold, calculated risks.

Over the past five years, we've been exploring with DFID how to increase the impact we achieve. We often come across single investments, or whole strategies, that could transform sectors or markets, but where the inherent risk of failure has been too high for us, and other investors, to proceed.

In 2013 and 2015, we established two small teams to test strategies that would be high-impact in nature, but carried a higher risk of failure: one team manages the £75 million Impact Fund and the other manages the £40 million Impact Accelerator. The Impact Fund invests through investment fund managers, while the Impact Accelerator invests directly into businesses.

These pilots have demonstrated that by stretching our risk appetite and lowering our expectation of portfolio financial returns, we can make investments that can have additional impact.

« These are risky environments, in which there are not great amounts of money to be made by private enterprise. That is why so few firms go there. So one of the purposes of public money is to bear some of the risk. »

Sir Paul Collier, Professor of Economics and Public Policy, University of Oxford

The Impact Accelerator invested in 14Trees, a building company, to bring eco-bricks to Malawi

Investment works

Bringing clean electricity to one of the world's poorest and most-fragile countries

Virunga Energy is located in one of the most challenging operating environments in the world, the Virunga National Park in North Kivu, eastern Democratic Republic of the Congo, which is still suffering the effects of many years of regional and civil wars. The company provides clean electricity and employment where there is currently virtually none. The company also has a rehabilitation programme for socially-excluded former soldiers, including children. Our long-term loan is the first investment outside of grant finance in North Kivu since the mid-1980s.

The Impact Accelerator invested in Virunga Energy (Democratic Republic of the Congo).

Scaling up innovation

One of the key messages we heard in developing this strategy was that DFIs must be willing to take greater risk where the development returns justify it. Building on what we've learned, we have worked closely with DFID to extend the boundaries of how we will invest over the next five years. This includes recruiting people experienced in impact investing and in building early-stage businesses; and in working out how to provide capital with a greater tolerance for risk, and possible losses, and developing new innovative strategies and partnerships.

Our vision is to bring about new business models, develop nascent or failed markets and, in the long-run, improve the economy in the countries where we invest. We will pursue strategies and individual investments that, if they succeed, will have a transformative effect. In doing so, we will apply the same commercial rigour and high standards of responsible investing that we apply to all our investments, and we will continue to back, or partner with, individual companies or funds.

Achieving impact that would otherwise be impossible will be at the heart of our approach. These strategies will be ahead of where traditional capital markets are positioned, and may take a long time to develop to the point where they can attract commercial capital. We do not underestimate the challenge, but by accepting higher risks on our balance sheet and taking the hard first steps, we can increase the speed and scale of sector or market development.

Using concessional capital necessitates a highly responsible approach to avoid undercutting other investors, or enhancing returns in investments that would happen without it. In this respect, we will ensure that the principles we apply are at the forefront of best practice for developmental investors.

Innovative strategies

Given the success of the two pilot Impact facilities, we will increase the amount of capital available to them.

Impact Accelerator
We use this facility to support existing businesses in pursuing high-impact strategies they wouldn't attempt on their own, or to expand their operations or supply chain to countries they wouldn't otherwise enter. The facility also supports early-stage businesses which could transform markets or the poorest economies if successful.

Impact Fund
This facility supports investment funds pursuing high-impact strategies such as investing in businesses that provide access to improved goods and services, and income-generating opportunities to underserved groups, or investing in more challenging or fragile regions with limited investment activity.

New strategies
Beyond the Impact teams, we are exploring further investment strategies targeted at addressing specific market failures:

Improving access to, and affordability of, health commodities
In Africa and South Asia, key health commodities, such as medicines and diagnostic aids, are trapped in a vicious circle of low supply and high prices. Without significant demand, manufacturing won't happen at a scale to bring prices down. To overcome this market failure, this facility will sit between suppliers and buyers of medicines and diagnostics to provide market-based guarantees to underwrite demand – enabling production at greater volumes and lower prices. These guarantees, and the associated market-shaping work, will result in expanded, accelerated and more affordable access to essential health commodities, contributing to longer and healthier lives.

Investment works

Supporting jobs in a conflict zone

Even after more than 15 years of conflict, Afghanistan's entrepreneurial culture remains vibrant. However, businesses that have withstood the toughest of times now require investment to grow and generate the jobs and healthier future the country needs.

At the end of 2016, we invested $15 million in Afghanistan's first private equity fund, InFrontier. The fund is led by a determined team that has continued to travel to, and support, Afghanistan in the midst of security challenges. InFrontier will focus on companies that will be vital for underpinning the economy, such as financial services, agribusiness, health and education, and export businesses. Alongside capital, we'll support the team as they face immense challenges and try to improve social and environmental standards.

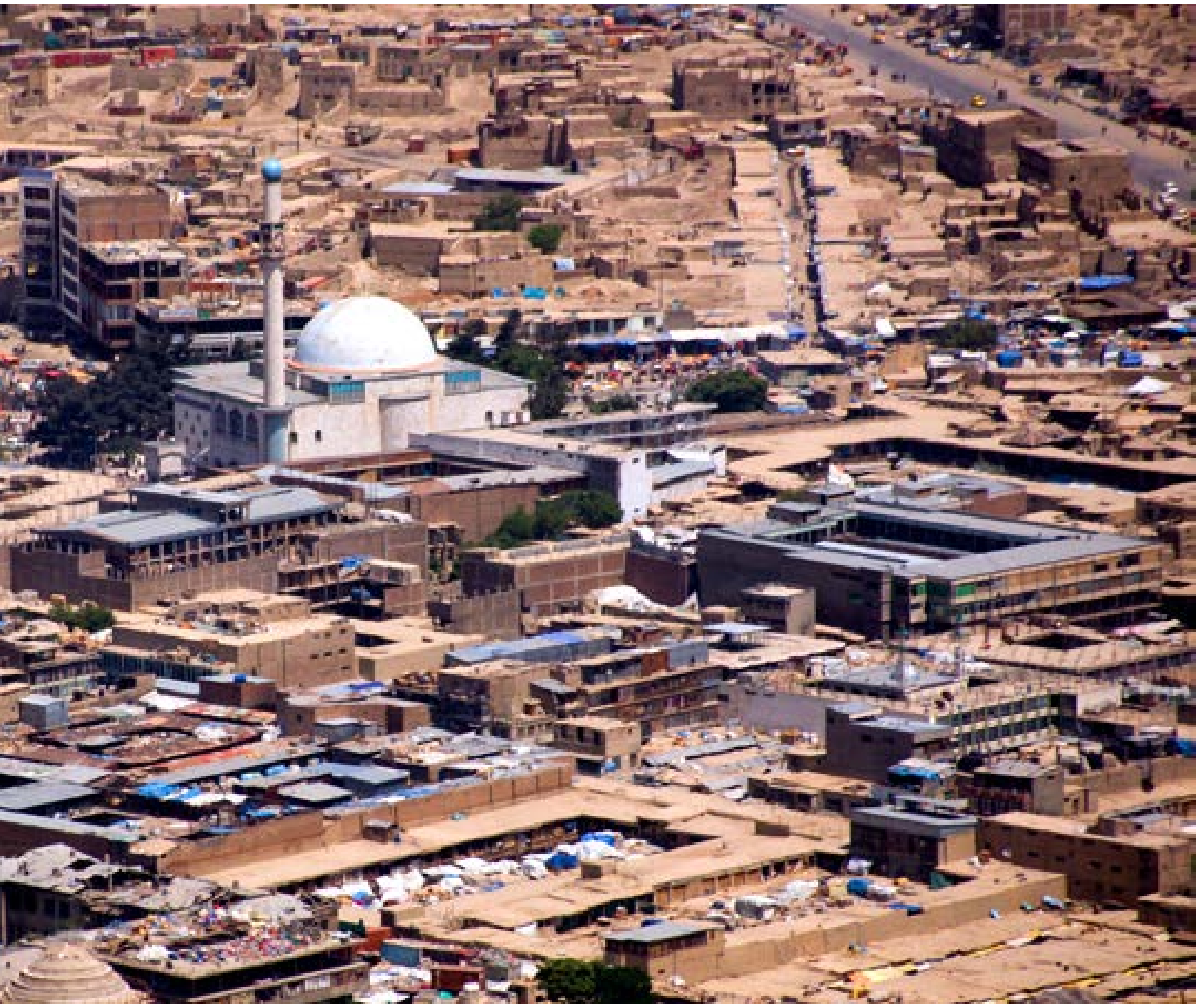
InFrontier Fund (Afghanistan): Impact Fund (pictured, Kabul)

Tackling electricity transmission and distribution
African electricity transmission and distribution networks have suffered decades of under-investment and, unlike power generation, have very few available sources of investment capital. Our goal is to establish a structure with the right pool of expertise, capital and mandate to contribute to stronger utilities that will expand energy access and grid stability; reduce power losses; accelerate the introduction of renewables; reduce costs for households and businesses; and improve safety and reduce public and worker fatalities.

Debt financing for off-grid solar
Grid electricity is unlikely to reach all rural areas of Africa and South Asia for many decades. The off-grid solar market is developing fast with a range of products, from small solar lanterns to solar home systems and mini community grids able to support multiple lights, phone chargers and basic domestic appliances. The lack of debt finance offered to businesses, especially in local currency, is a major barrier to the growth of the market. This facility would aim to provide the capital in the form it is needed and promote responsible practices in this important nascent market.

Resource efficiency facility
This facility will provide finance to our investee businesses to improve their resource efficiency. We will provide grants for feasibility studies for energy and water saving measures, and for installation of renewable energy sources for such businesses, followed by low-cost loans to achieve the planned resource efficiency gains as agreed.

These are four strategies we have explored so far and are examples of the approaches we intend to take. They are at an early stage and could develop in many ways and at different speeds. We will consider other strategies over time.



Enduring

We will grow in response to market need, ensuring value for money for the UK taxpayer.

We are proud to be owned entirely by the UK government, and have a history of investing for development over nearly 70 years. Our unique structure combines the best of private-sector skills with a public-spirited mission, and it is this that helps us attract and grow the necessary expertise to manage the funds entrusted to us.

Our governance structure

DFID has an arm's-length governance model for its shareholding in CDC. This mirrors best practice in the private sector, and is tailored to the needs of a public limited company wholly owned by the UK government.

In practice, this means our day-to-day operations and investment decisions are independent of government. DFID sets our Investment Policy including our Code of Responsible Investing, appoints our Chair and certain directors, and holds us accountable through regular reporting, including quarterly shareholder meetings. This model combines the main abilities of both our organisations to achieve the best outcomes and ensures:

- *Accountability*
  We are solely responsible and accountable for our investment decisions, which leads us to employ the highest standards of quality and integrity.
- *Proficiency*
  Oversight of commercial investment decisions is delegated to a carefully selected Board with skills and experience matched to our key objectives. DFID is not involved in our investment decisions.
- *Independence*
  Partners and investee businesses are reassured that our investment decisions are based on commercial rigour and independent of political involvement.
- *Continuity and stability*
  We avoid short-term policy changes. We are a long-term investor, which thinks in decades rather than years.
- *Financial regulation*
  By operating as a private company, we are better positioned to comply with the Financial Conduct Authority's rules.

Our expertise

To achieve our mission and strategic priorities for the next five years, we will continue to build and retain an exceptional team, which is highly motivated by the purpose and challenge of our work. Their skills and capabilities include:

- Commercial judgement to identify businesses that will grow and prosper.
- The ability to build relationships with the best management teams and investment fund managers and, where necessary, to influence the strategic direction of businesses for the best performance and impact.
- The skills to evaluate development and economic impact, and put the lessons from our research into investment practice.
- Creativity and determination to develop investment strategies to grow successful businesses in environments and sectors where there are currently few or even none.
- The skills to help businesses thrive, or even just survive turbulent times, such as economic troughs, currency volatility and political unrest.
- Knowledge of local business environments, which vary widely across Africa and South Asia, and the ability to build networks of local relationships.
- Financial and legal skills to structure investments on optimal terms, mitigate risk and limit potential liability and losses.
- Environmental, social and business integrity expertise to bring about positive outcomes, mitigate risk and ensure our partners work to our Code of Responsible Investing.

We have built these capabilities from scratch in new direct investment teams, alongside our existing intermediated equity team. Over the coming five years, we will continue to grow our headcount, although at a slower rate than over the last five years.

Managing taxpayers' money

Funding for growth
The financial returns we generate allow us to grow and recycle our capital into new investments. In steady state, we are self-funding and grow slowly, which means we achieve more impact over decades without requiring more capital from government.

However, a step-change in our investment rate does require new funding. We hold our investments for periods of, typically, between seven and ten years, so an annual increase has to be funded until the new investments start returning the capital (see Figure 1 below).

After that, unless we make a further major change, we return to our normal self-funding state.

When we agreed our new strategy with DFID in 2012, we were unsure of the level of market demand for our capital and newly created expertise. However, it was understood that if the market need was there and we were able to meet it, we would need more funding.

The past five years have demonstrated a very real market need. As our team has expanded and the new direct equity and debt strategies have developed their portfolios, our annual investment rate has grown from around £0.2bn per year to nearly £1.2bn in 2016. This was supported by a capital injection of £735m in 2015 from the UK government.

Despite this growth, we remain small relative to the need for capital in our markets and the size of our closest European peer DFIs (see Figure 2).

In response to market need, we project that over the next five years we would be able to:

1. Continue to invest at an average of £1.2 billion per annum.
2. Make a further £0.8-£1.6 billion of investments in total over five years through our new innovative strategies.

The annual amount is likely to show some volatility because the quality of our pipeline varies from year to year, so to maintain the highest standards of investment selection, we don't set annual volume targets.

The majority of this new investment will be funded by realisations from our current portfolio. However, our models suggest that continuing this major change in investment rate will require further capital (see Figure 3, page 36), which will be researched and considered in a separate business case.

> *From more or less a standing start, CDC has met and gone beyond what its shareholder asked of it in 2012... It has also gone beyond the Policy's explicit requirements by exploring new ways to broaden its development impact. CDC has done this in a way that is consistent with its stated aim to be a "distinctive, effective DFI with a greater appetite for risk and a clear focus on development impact".*
>
> *Peter Morris, Evaluation of CDC commissioned by DFID, 2016*

Funding model for an organisation increasing its annual investment rate

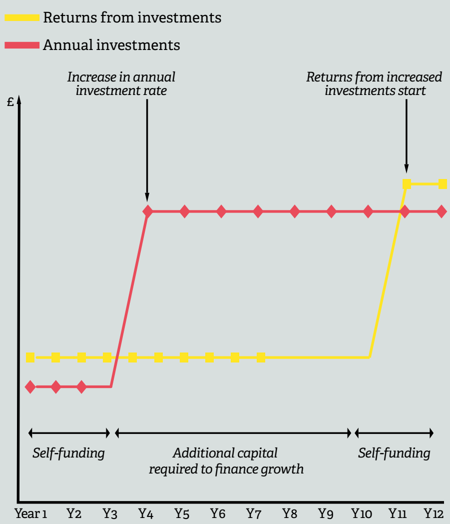


Figure 1

DFI portfolio sizes relative to net Official Development Assistance (ODA)

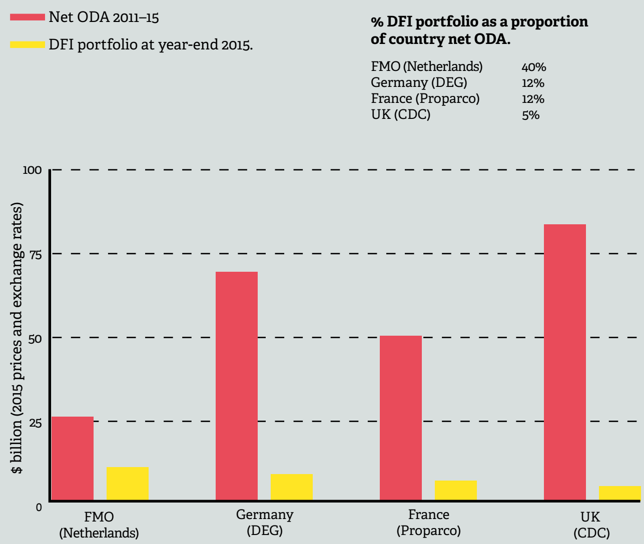


Figure 2

Portfolio growth forecast

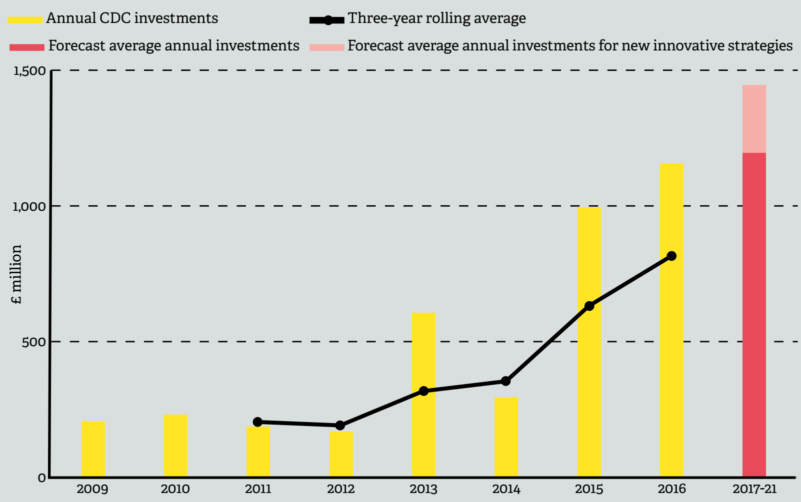


Figure 3

We expect to be close to self-funding again in 2022, depending on the performance and liquidity of our portfolio. After this period, only the new innovative strategies or a further increase in investment pace might require further new capital†.

The decision to provide further capital to increase our investments is always one taken by government, in agreement with our Board, with the limit on capital that can be provided controlled by Parliament through the Commonwealth Development Corporation Act, 2017. Before any amount of additional capital is provided, DFID will prepare a full business case. This will be published, and will include projections of investments, realisations and new capital, and will show how further investment will reflect the objectives reported in this document, respond to market need, achieve value for money, and developmental impact.

Safeguarding taxpayer value
In everything we do, we aim to achieve value for money for the UK taxpayer. Our 2012–2016 strategy was designed to increase our impact by moving our investments into harder places and by being more active in generating investment opportunities, and more 'hands-on' with our portfolio investments. This approach involves higher operating costs because we must spend more time, resources and expertise to execute and support each investment. Despite this, our operating costs remain at the lower end of our DFI peer group. Over the next five years, as we continue to increase the scale of our investment and take on new innovative strategies, we also expect our cost ratio to increase.

Legacy investments
We continue to hold investments made in regions such as China and Latin America that were made prior to our change in strategy in 2012, which narrowed our geographical focus. At that time, we considered selling them, but concluded a sale would represent poor value to the taxpayer. The fund secondaries market favours buyers, and more so if the seller is perceived to be a forced seller. While selling early would have meant more of our portfolio reflected our 2012–2016 strategy, it would also have meant we would have had less capital to reinvest to achieve impact.

The performance of the legacy portfolio has confirmed our 2012 decision. We are seeing good financial returns from these investments, which we are now recycling into more businesses.

We will continue to exit these investments over the coming years and expect them to comprise less than one per cent of our portfolio by 2021.

« CDC's performance compares favourably with development finance organisations overseas... CDC's operating costs as a percentage of portfolio value has generally been lower than, or at the lower end of, the other organisations. »

National Audit Office Report, Department for International Development: investing through CDC

†. External factors can affect our projections, such as variations in the global economic environment and the demand for our capital. Similarly, our returns depend on the performance of our existing portfolio, which is also affected by external factors such as currency, market volatility, and the holding periods of our investments, which may increase if market conditions worsen. These variations may influence the amount of additional capital required.

Risk management
Our mandate to invest in some of the most challenging regions of the world exposes us to inherent risks. We have introduced a number of new approaches, policies and procedures to manage and mitigate them. The nature of our work means that these risks can never be entirely eliminated: some investments will fail, for example. We have a risk management policy that sets out our risk appetite, and a system of triggers to elevate the consideration of potential risks to the dedicated Risk Management Committee of our Board. The main risks we manage are:

Development risk That we do not achieve our intended impact	We manage this through our strong investment selection and management process, to direct our capital towards the most job-creating sectors in the more challenging places, and then track performance over time.
Business integrity risk That our investee businesses (or associates) engage in fraud, corruption or other financial crime	Prior to investment, we conduct thorough due diligence to identify whether companies are committed to high standards of business conduct, and do not knowingly support financial crime. We also help companies and investment fund managers develop and enhance corporate governance standards and practices.
Environmental and social risk That our investee businesses create environmental or social harm	We conduct pre-investment due diligence to assess a company's environmental and social risks and the systems they have to manage them. All investment fund managers and investee businesses must sign up to, and comply with, our Code of Responsible Investing. We write strong environmental and social standards into our legal agreements and support and monitor companies as they implement them, including by helping to resolve issues as they arise and conducting visits to higher risk investments.
Financial risk Of not achieving appropriate financial returns	Our investment decision-making process is designed to ensure high-quality, transparent and accountable investment decisions. We build a diversified portfolio of assets and have implemented a framework of country and sector triggers to avoid excessive concentrations. We regularly conduct, and review, valuations of the individual assets within our portfolio.
Liquidity risk Of not having sufficient capital to honour our commitments	We have developed new measures to project how much capital we will need, and when. We have negotiated a new credit facility so we can honour demands without holding too much cash, even if markets enter volatile periods.
Operational risk Of problems caused by people, processes, systems or external events	We have put in place policies, procedures and processes that include appropriate control measures. We hire skilled staff and train them to operate in accordance with these measures. Our internal audit function regularly reviews the adequacy and effectiveness of the control measures.

«We invest all of our returns into new investments. By 2030, the target date for the Global Goals, we expect each new pound invested by CDC in 2017 to have supported at least two businesses and to have attracted further capital from private investors, multiplying its impact. Each investment we make will continue to grow and support businesses in Africa and South Asia for many decades beyond, creating jobs, spurring growth and generating impact for as long as it is needed.»

Graham Wrigley, Chairman CDC

Appendix

Focus on sectors

+

The development impact grid

Infrastructure

Creating jobs
Removing major constraints to growth, such as poor electricity and connectivity, allows businesses to be more productive and competitive, leading to expansion and more jobs.

Priorities
Our focus so far has been on the power sector, always preferring renewables where they make sense from a cost and grid perspective. We aim to provide least-cost power, while always evaluating the potential climate impact, to increase the supply in the most challenged countries. We do not invest in coal-fired thermal power plants.

Beyond increasing generating capacity, the transmission and distribution of electricity is a major barrier to improving access for businesses and households. The sector faces enormous challenges and we have made it a priority for the next five years.

We also intend to look at two other critical types of infrastructure: transport, and oil and gas infrastructure, which are major economic enablers in sub-Saharan Africa and South Asia, particularly in relation to power and industrial development. We will continue lending to support telecoms infrastructure to improve connectivity for the poor.

Investment works

Gulpur Hydropower

Pakistan has a dire shortage of power, which leaves millions of people with no reliable electricity and holds back businesses. In 2015, we approved a loan of US$18m to Gulpur Hydropower for the construction of a 102 MW hydropower plant in Pakistan. The plant, which will be completed by 2020, will bring down the overall cost of power and reduce greenhouse gas emissions, by helping Pakistan move away from thermal power generation.

We played a significant role in bridging the funding gap for the project, along with other DFIs, by providing long-term lending. We are continually engaged with the parties to ensure best environmental and labour law practices for the project.

Financial institutions

Creating jobs
While finance can employ large numbers of banking staff, its main impact is the employment generated by lending to businesses of all sizes, and personal borrowers for micro-enterprises.

Our priorities
Our main aim is to support the critical financial infrastructure that will bring economic development. We will continue to support banks in challenging places, so they can increase their lending to local businesses and provide routes to channel foreign capital into domestic markets.

Over the last five years, we have gained considerable experience working with non-bank speciality finance institutions in South Asia, including housing, microfinance, vehicles and SME finance. These investments have been successful and developmental. Microfinance in particular has become an established route for providing credit to individuals and the very smallest businesses. We now plan to use this experience to emulate some of this success in the harder markets across Africa, which are very different and nascent.

Supply-chain finance for small enterprises and affordable housing financing are two other areas of interest. We will also begin to look at investments in insurance and financial technology (FinTech), both of which have the potential to have a transformational effect.

Investment works

Standard Chartered Bank risk sharing facility

Trade finance supports the supply chain of multiple industries and is essential for the smooth functioning of any developing economy. The capability of banks to finance trade flows has been negatively affected by the 2007–08 financial crisis, and more recently by the severe fall in commodity prices. With increasing regulatory pressure to strengthen their capital base, banks face the choice of either refusing to extend credit to businesses – inhibiting normal economic activity – or seeking partners that can share the risk to allow the wheels of economic activity to keep turning.

Since 2013, we have worked with Standard Chartered Bank to set up a facility under which we share the repayment risk arising from trade finance transactions generated by the bank's network in Africa and South Asia.

By increasing trade finance volumes in these regions, the facility responds to the broad market demand for trade credit in underserved markets and helps expand the availability of trade finance products across low-income countries, resulting in more economic activity and more jobs.

Food and agriculture

Creating jobs
Food production, processing and allied businesses typically support six jobs and livelihoods in the supply chain for each direct worker.

Our priorities
We focus on businesses that can make sustainable improvements in agricultural productivity and enable farmers to scale up, because this is the best way to improve the livelihood of smallholder farmers, many of whom are women. Such businesses include food processing, crop and livestock inputs, supply-chain infrastructure, and microfinance.

One of our priorities will be to support businesses that will meet the rising domestic demand for food in Africa and South Asia. These will contribute to economic growth and can boost inter-regional trade by building on local supply chains. We will also continue to support the adoption of sustainable farming practices and technologies.

Because of the significant diversity of crops and food production systems in our regions, we will not invest in the same sub-sectors everywhere. Instead, we aim to support the best quality management teams in the market and to identify and invest in commercially sustainable country and sub-sector pairings that can have a real impact on development.

Investment works
Zambeef

The Zambeef Group is a leading agribusiness company in Zambia, involved in the production, processing, distribution and retailing of beef, chicken, pork, milk, dairy products, eggs, stock feed and flour. It also distributes cold-chain products in Ghana and Nigeria. The Group has large row-crop-farming operations to supply its stock feed mills and wheat mill.

Our 2016 investment has been transformational in securing the future growth of the business, with a clear potential for developmental impact at many levels:

+ Job creation: Zambeef directly employs over 6,200 people and generates significant further indirect employment.
+ Smallholders: the company buys products from over 10,000 small-scale farmers, connecting them to an efficient supply chain and providing them access to the market, thereby enhancing their livelihoods.
+ Better nutrition: Zambeef's chain of retail outlets contributes to increasing the availability and affordability of protein for Zambian, Ghanaian and Nigerian consumers.

Manufacturing

Creating jobs
Despite increasing automation, this sector is still an engine for employment. Local supply chains typically provide eight jobs for every shop-floor worker.

Our priorities
We support the sector, which is under-represented in both Africa and South Asia, by investing directly in manufacturing businesses and enabling businesses, such as industrial parks and logistics. We tend to invest directly in larger businesses, and through banks or funds, to reach smaller enterprises.

For direct investments, our priority is to focus on areas where local manufacturing can become regionally competitive, so as to build sustainable, large-scale businesses. We help local manufacturers access new markets. This includes construction materials, fertilisers, healthcare commodities and pharmaceuticals, chemicals, and basic consumer goods all of which can be produced locally in our regions, but are often imported. We will also consider investments in export-led light manufacturing businesses, such as clothing.

Investment works

ChemiCotex Industries

We invested in ChemiCotex, a leading manufacturer of consumer goods in Tanzania, through an investment fund. The company makes the leading oral care brand (Whitedent toothpaste) in Tanzania as well as other personal care, food and beverage, metals and plastics products. ChemiCotex employs close to 1,200 people.

Under the investment fund manager's guidance, ChemiCotex has been expanding into neighbouring countries and aims to become the leading personal care business in the region. The company has been implementing a comprehensive action plan to address environmental and social issues, focusing on waste reduction and the improvement of workers' safety through training programmes.

Construction

Creating jobs
With a high demand for semi-skilled workers, the sector also builds local supply chains for building materials, and supports the businesses and organisations that ultimately use the buildings, whether retailers, schools or others.

Our priorities
There is an enormous need for all kinds of new buildings in every country where we invest, whether it's industrial warehousing, housing, hospitals, schools or retail. The challenges brought about by climate change have heightened the need for a sustainable construction sector that takes into consideration the social and environmental impacts of projects, and produces buildings that are energy and resource efficient.

Our focus over the next five years will be on affordable housing and logistics. Investing in these subsectors will create jobs but will also bring many indirect benefits. For example, logistics assets (warehouses and industrial real estate) support trade and economic growth by reducing the cost of moving goods.

We will continue to support large-scale urban development projects and construction projects in the retail and hospitality sectors. Such investments create jobs both in the construction process and in the businesses they host once they are completed (a shopping centre, for instance, employs an average of five workers per 100 square metres). These projects also contribute to shaping the urban landscape in Africa and South Asia, at a time when the number of people living in cities is increasing rapidly.

Investment works

Garden City

In 2013, we invested in Garden City, a mixed-use, greenfield urban development in Nairobi, Kenya. The project comprises both retail space and residential units. 2,500 workers were employed during the construction phase. They worked in a safe environment with high standards of health and safety, and received training, which meant they learned skills to take with them to their next job. Now it's completed, Garden City supports good quality jobs for over 1,300 people working in the shopping centre.

The development has contributed to the transformation of an underdeveloped area of the city. The Garden City project has boosted growth and infrastructure development. Further residential units are now being constructed in the area surrounding the site, contributing to a higher quality of urbanisation of Nairobi.

The project used a 'green by design' approach. The site was designed to minimise the use of water and energy: for instance, it employs water-efficient sanitation facilities, maximises the use of natural light and ventilation, and turned the roof of the car park into Africa's largest solar photovoltaic carport.

Health

Creating jobs
The health sector is a major employer across emerging and developing countries. With investment, healthcare institutions create a large number and variety of jobs, including doctors, nurses, paramedics, management, teaching, construction and maintenance, catering, cleaning and security. For instance, a single tertiary care hospital may employ as many as 1,000 people (the equivalent of a large manufacturing facility).

Our priorities
Few governments in our markets are currently able to provide essential, quality health services to the whole of their population. There are only seven doctors for each 10,000 people in India (compared to 28 in the UK), and they are concentrated in the richer states. In Tanzania, there are fewer than three doctors for each 100,000 people.

In almost every country in the world, health services are provided by a combination of both state and non-state providers, including the private sector.

In response to the findings from a study by Imperial College, London, we focus on investing in private healthcare providers that have a positive impact on the overall health care system. This includes, for instance: introducing treatments that don't currently exist in the country, making treatments cheaper, improving quality of care or increasing the number of healthcare professionals in the country (through training or encouraging expatriates to move back and practice in their home country). Private providers can also contribute to the health ecosystem more broadly, for example by mentoring government health facilities or collaborating with government insurance schemes.

Based on these principles, our healthcare strategy aims to support specific types of companies, for instance, (1) innovative providers that will bring new treatments to market; (2) those finding new ways to serve poorer groups by reducing costs; or (3) medical education providers that can train substantial numbers of healthcare professionals. We're also interested in healthcare providers that can expand into poorer regions, such as the poorest parts of India, or Indian healthcare providers expanding into Africa.

Investment works

Medpharm Holdings Africa

We invested in Medpharm through the Ascent Rift Valley fund, in 2015. Medpharm is a holding company for International Clinics Laboratories, the leading provider of laboratory services in Ethiopia – a country that needs increased access to healthcare and this type of service. Medpharm serves over 260 healthcare centres and conducts a range of over 2,000 tests.

Under the investment fund manager's guidance, the company recently opened two wellness centres and introduced new services by setting up a pathology department. It is also expanding its public private partnerships with local hospitals. The company's ambition is to become the most advanced laboratory in the East African region.

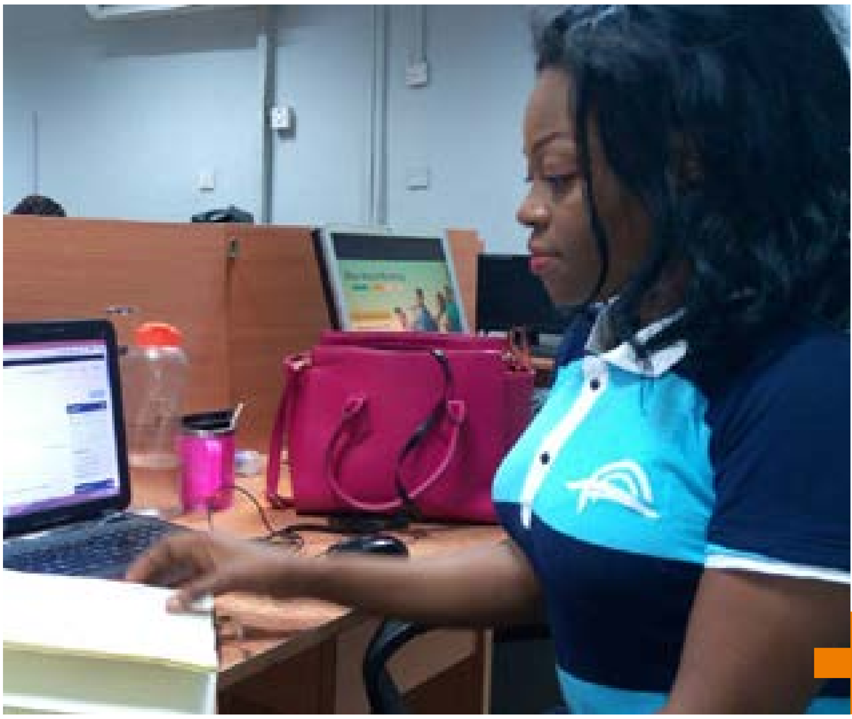
Education

Creating jobs
Pupil attainment depends on a high number of teachers, making the education sector a major and important employer. The sector is a large-scale employer of women, particularly in rural locations. There is an established multiplier effect to investments in education – with higher skills and educational levels directly affecting income growth. In developing countries, every year of additional schooling can increase an individual's earnings by up to ten per cent.

Our priorities
Despite notable progress in broadening access to education since 2000, education systems in Africa and South Asia face extraordinary challenges.

We will focus on companies that will lower prices or improve quality. In particular, we are interested in new ideas that provide more affordable education and can be replicated at scale. We are also interested in supporting companies that work with governments to improve the quality of public sector education – for example, school management companies, publishers of educational content and teacher training companies.

Finally, one of the many constraints businesses face in our regions is the lack of skilled professionals. This is why we will also look to invest in education providers that can offer quality higher education and vocational training that was previously unavailable in a particular country.



Investment works

UNICAF

Founded in 2012, UNICAF is a blended online and physical higher education company dedicated to making international standard higher education available in Africa, at a substantially reduced cost.

UNICAF partners with western universities, and offers its own, locally accredited degrees to Africans who are looking to study largely online. UNICAF has grown to over 8,000 students today, and is on track to reach over 60,000 students by the end of 2020.

UNICAF has been able to bring down the fee paid for these degrees to approximately 20 per cent of the price paid for the same degrees, from the same institutions, in Western economies. This is also a fraction of the cost at equivalent quality universities in Africa. UNICAF provides a level of flexibility that allows students to continue to work while they study, providing affordable education for Africa's increasingly youthful population.

Our 2016 equity investment supports the introduction of UNICAF higher education learning centres across African cities, including finalising the establishment of a university campus in Malawi. Our investment is expected to lead to the creation of around 1,000 jobs.

The Development Impact Grid

The Development Impact Grid is our investment screening tool, which scores every investment we plan based on two factors: the difficulty of investing in the country where the investment is to be made and the propensity of investments in the relevant business sector to generate employment.

How the Grid works

- Before investing, we give each business a development impact score based on its sector and country or state of operation.
- We have divided countries within Africa and South Asia, and states in India, into four categories (A-D, with A being the most difficult, see page 47) depending on their investment difficulty.
- Business sectors have been divided into three categories (High, Medium, Low) depending on their propensity to generate employment.
- We combine the two results in a score from 1.00–4.00, using the grid shown here:

Propensity of sector to generate employment	D	C	B	A
High	2	3	4	4
Medium	1	2	3	4
Low	1	1	2	4

Investment difficulty of country or state

Ranking methodology

Countries and regions

The investment difficulty of each country and Indian state is measured by an equally weighted index combining five indicators: (i) market size (GDP PPP); (ii) income level (GDP/capita PPP); (iii) credit to the private sector (as percentage of GDP); (iv) 'Doing Business' rankings and (v) a composite measure of fragility designed by DFID[1].

Sectors

Sector ranking is based on an independent analysis of economic data for African and South Asian countries.

The analysis weights four aspects of employment generation equally: (i) the skilled employment to capital ratio; (ii) the unskilled employment to capital ratio; (iii) the local procurement to capital ratio, measuring supply chain employment; and (iv) economy-wide employment effects from improving access to infrastructure and financing.

The two indices are based on 2015 data accessed in November 2016.

For more information about the Development Impact Grid please visit www.cdcgroup.com

Notes

1. DFID's fragility index is a country-level analysis and therefore is not included as an indicator for Indian state categorisations.

Full list of countries and Indian states

This index will be re-calculated at five-yearly intervals for the duration of our Investment Policy.

	A			B	C		D
Countries	Afghanistan* Benin* Burkina Faso* Burundi*,** Cameroon* Central African Republic*,** Chad*,** Comoros*,** Congo, DR.*,** Congo, Rep.*	Djibouti*,** Eritrea*,** Ethiopia*,** Gambia, The* Guinea* Guinea-Bissau* Liberia* Madagascar*,** Malawi*,** Mali* Mauritania*	Myanmar* Niger*,** São Tomé and Príncipe* Sierra Leone* Somalia*,** South Sudan*,** Sudan* Togo* Uganda*,** Zimbabwe*	Angola* Côte d'Ivoire* Equatorial Guinea* Lao PDR*,** Libya* Mozambique* Nepal* Nigeria Pakistan* Swaziland* Tanzania*	Algeria* Bangladesh* Bhutan* Botswana Cambodia* Cape Verde* Egypt, Arab Rep.* Gabon* Ghana*	Kenya Lesotho* Namibia Maldives Rwanda* Seychelles Senegal* Sri Lanka Zambia*	Mauritius* Morocco* South Africa Tunisia* Vietnam*
Indian States	Arunachal Pradesh* Assam* Bihar* Chhattisgarh* Jammu & Kashmir* Jharkhand* Madhya Pradesh*	Manipur* Meghalaya* Mizoram* Odisha* Rajasthan* Uttar Pradesh* West Bengal*		Andhra Pradesh* Telangana*	Karnataka* Nagaland* Punjab* Tripura*		Andaman & Nicobar Islands Chandigarh Delhi Goa Gujarat Haryana Himachal Pradesh Kerala Maharashtra Puducherry Sikkim Tamil Nadu Uttarakhand

Although Nepal would have been a 'C' country, we have refrained from changing the index in this five-year cycle because the economic effects of the 2015 earthquake are not fully reflected in the 2015 data.

* and ** denote exceptions detailed in the table at the bottom of this page.

Sectors

High	Medium	Low
Construction Food processing (incl. agribusiness) Infrastructure (incl. power) Manufacturing Health and education	Agriculture Trade	Business services Communications services Financial services Mineral extraction

Sector categorisations are subject to the following exceptions:

Sector	Classification	Exceptions
Construction	High	Applies only to the construction phase of real estate projects. Operational phase scored as relevant sector category.
Trade	Medium	Categorised as High if >60% of procurement is local (domestic or from another country of higher or equal DI score); categorised as Low if <20% of procurement is local.
Financial services	Low	Countries and Indians states marked with * due to poor access to finance (% of adults with formal accounts or firms citing finance as a major constraint), where category is promoted to High.
Communications services that relate to mobile telecommunications	Low	Countries marked with ** due to low mobile phone penetration, where category is promoted to High.

Note: If an investment consists of secondary or replacement capital where no additional capital is made available for a business, it is deemed to be Low irrespective of sector, unless CDC takes an active role that better aligns the business with CDC's developmental mission.

Investment works

CDC Group plc
123 Victoria Street
London SW1E 6DE
United Kingdom
T +44 (0)20 7963 4700
E enquiries@cdcgroup.com

cdcgroup.com

CDC is wholly owned by the
UK Government