CDC
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Impact Accelerator 2017
Building an impact-driven investment portfolio

Background

The Impact Accelerator (IA) was created in 2015 to develop the market for impact investing in some of the most remote and challenging business environments in the world. Here we draw on our experiences of investing over the last two years and make recommendations on how to build an impact-focused portfolio.

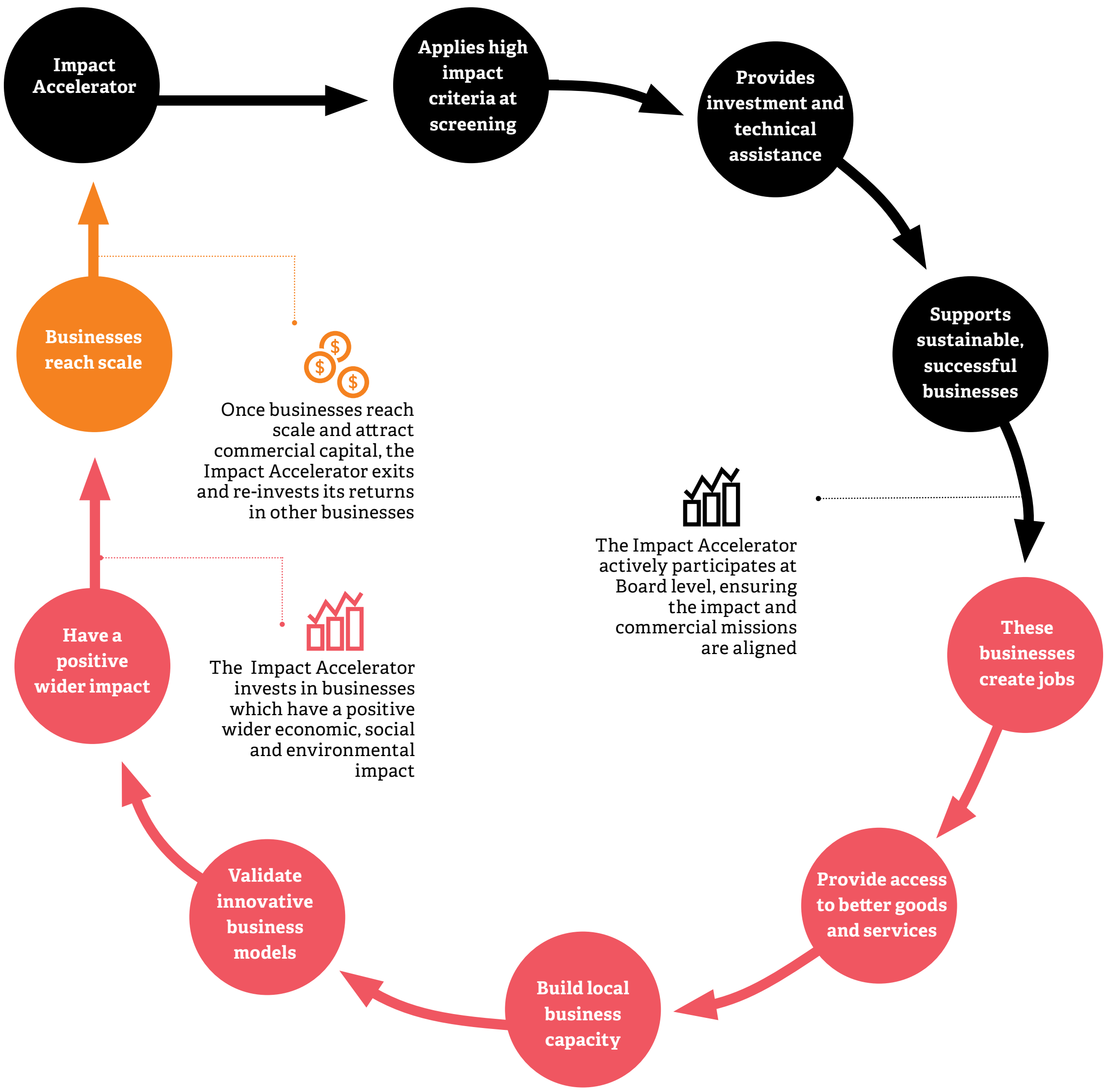
We invest capital in highly developmental businesses that can achieve commercial sustainability in the medium term. We focus on investments that either address underserved consumers, sectors or segments of the value chain, support scalable innovative business models, or operate in harder geographies. Our mandate means we can invest in ventures with more challenging risk-return profiles than typically considered by commercial investors, while capitalising on CDC's reputation as the oldest development finance institution and our experience and networks in Africa and South Asia.

This focus will over time, and in successful cases, pave the way for commercial investors to follow once the business has scale and traction, catalysing both commercial sustainability and development impact.

The IA is funded by the Department for International Development (DFID) and managed by CDC Group, the UK's development finance institution.

How does our model work?

This shows how we work with businesses to support them to reach scale and deliver development impact.



Our recommendations

Rethink your definition of impact

Impact should be intrinsic to the business model and go beyond that typically achieved through corporate social responsibility activities. This is a trait shared across all the investments we've made so far – from a business generating electricity in one of the most remote parts of the Democratic Republic of the Congo (DRC), to a company producing nutrient-rich food in Rwanda.

During the initial phase of the IA, we prioritised learning and broadened how we consider impact (beyond job creation). We focus on investments that either address underserved consumers, sectors or segments of the value chain, support scalable innovative business models or those in harder geographies. This flexibility allows us to drive development impact at scale, across broader income groups (sometimes needed to balance commercial considerations), and experiment with innovative business models in geographies that are new to the CDC portfolio. Our approach is also not necessarily limited by focusing on specific income segments.

Move from impact measurement to impact management

Our approach involves building an impact function into the deal team. Traditionally, measuring impact is an adjunct of monitoring and evaluation with an accountability focus. However, our impact management approach has a broader mandate. It aims to demonstrate the business value of tracking impact performance more thoroughly (for example, indicators that give insight into customer or product intelligence), identify and overcome bottlenecks to achieving impact through an impact due diligence process, identify opportunities to drive impact further and, where needed, align technical assistance and other support to maximise impact potential.

Offer technical assistance

Given the remit under which IA operates – whereby our investments may be greenfield or operate in challenging contexts – all our investee companies can access our Technical Assistance Facility and CDC's network of businesses. Technical assistance is overseen by investee companies (who co-finance part of the cost), to ensure capacity building is well aligned to company needs and priorities. The support may include business development services, supporting a company to implement best health and safety practices or building capacity to enhance impact considerations.

Leverage the strength of commercial partners

We provide concessional capital and our team takes a measured approach to financial returns. This is done by individual investment and across our portfolio, enabling other forms of capital to invest alongside, thereby reduce the risks of early stage and/or greenfield projects. For example, we've invested in projects in difficult geographies and supply chains alongside multinationals like Royal DSM and LafargeHolcim to get to bankable commercial viability. Our investments also help previously grant-funded enterprises to migrate to commercial funding, like Virunga Energy in the DRC. While this approach can be effective, our experience suggests that deals in this space place greater demands on resources before and after investments are made. Legal documents are more complex, the due diligence process is more expensive, and greater support is needed during portfolio management and in building the pipeline.

Be prepared to incentivise impact

Because we recognise that equity and debt can play complementary roles in financing business growth, we offer a range of investing instruments and have found that deploying our funds as equity can often unlock additional debt and grants from co-investors.

We are also testing including impact performance-based features in our financing structure to align operators to the impact mandate. These are carefully designed to correlate commercial and impact success. Examples are (i) profit-sharing schemes for specific impact-driving activities where the IRR is capped for a set time period; (ii) or until a specific impact target is reached; or (iii) a lowered floor on put options if specific, time-bound, measurable and independently-verifiable impact achievements are made by the investee company at exit.

Consider your exit

Our capital aims to support businesses in reaching the point of commercial sustainability which will then allow full commercial capital to invest. This, in turn, allows us to exit and recycle our capital for new opportunities. While we sometimes use self-liquidating structures, our strategy generally includes co-investing with multinational corporations and existing CDC investee companies into joint ventures to leverage their expertise and to build in timely exit options at the point of investment.

How do we screen potential investees?

The business or project:

Reaches underserved consumers, sectors or segments

Or

It has an innovative business model or investment structures

Or

Operates in a difficult geography

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And drives one or more of the following impacts:

Direct impact

- Generates economic opportunity (for example, through jobs, purchases from local suppliers, or from taxes paid)
- Builds local business capacity
- Provides better goods or services

Systemic impact

- Replicable or scalable to drive impact at scale
- Mobilises additional capital into investees
- Catalyses route to commercial sustainability through IA capital

Our investments

Africa Improved Foods

Sectors: Nutrition, agriprocessing

Impact challenge: 3.1 million children die annually due to malnutrition. It can also cause stunted growth, cognitive impairment, immunodeficiency and long-term lost productivity for the country.

Impact solution: Royal DSM, a leading nutrient manufacturer, wanted to make its first sizeable investment in Africa to address malnutrition at scale. Our investment accelerated the building of manufacturing facilities in Rwanda to be followed by Ethiopia that will produce high quality, fortified food products. These factories will create demand for agricultural raw materials produced locally and develop a product that is produced in Africa for Africa. For the first few years, the return is capped to maximise impact through profit sharing with the respective governments.

Our commitment: $10 million equity.

Co-investors: DSM (sponsor and operational partner), the International Finance Corporation and FMO, the Netherlands' development finance institution.

Virunga Energy

Sector: Renewable energy

Impact challenge: The area surrounding the Virunga National Park in eastern DRC has endured two decades of conflict and has only 3 per cent electrification.

Impact solution: The Virunga Foundation is developing hydropower capacity to revitalise the local economy, drive regional stability post-conflict and alleviate the pressure on the park's resources by enabling other sources of employment and access to power. We provided the first non-grant financing to Virunga Energy to accelerate the generation and distribution of electricity and prove their capacity to support commercial capital.

Our commitment: $9m debt.

Co-investors: Grants from The Howard G. Buffet Foundation, Belgium Government and EU Commission.

14 Trees

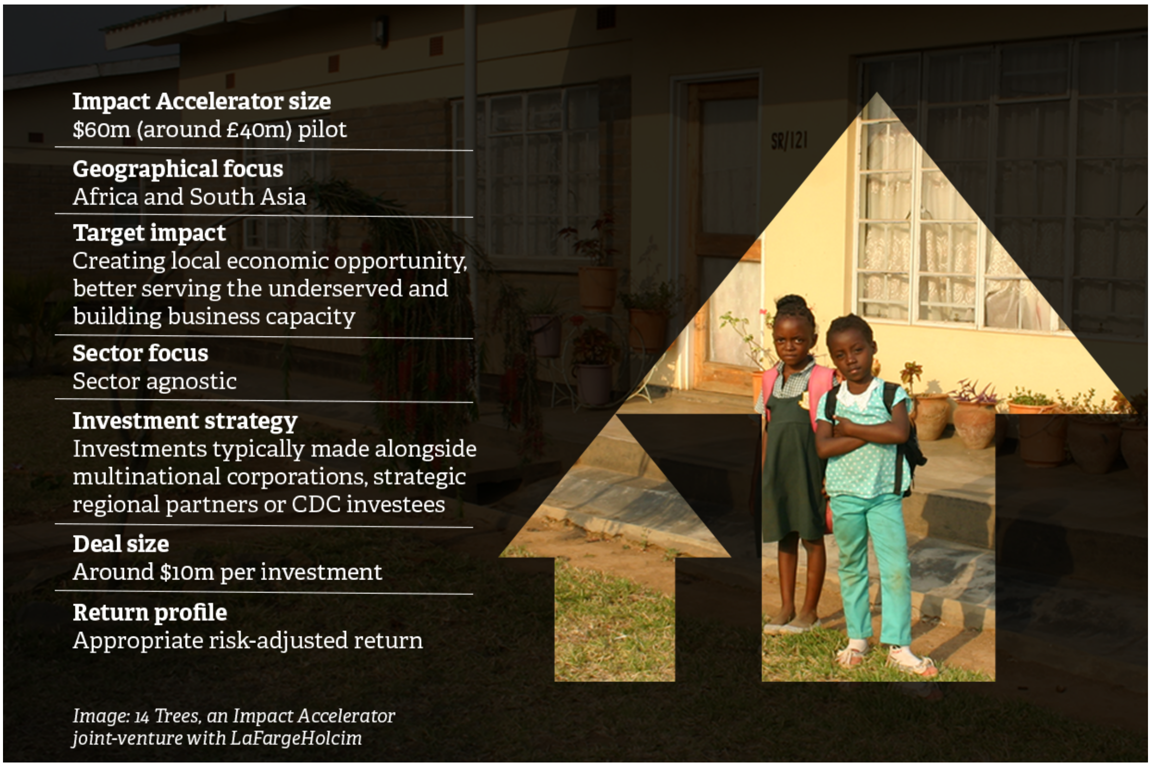
Sector: Construction

Impact challenge: High urbanisation rates create a growing housing demand the local construction industry struggles to serve. Without alternatives, this increased demand will mean that houses are built using environmentally-damaging burnt clay bricks.

Impact solution: LafargeHolcim, a building materials manufacturer, wanted to scale up its innovative housing solution (Durabric) in five countries through a co-investment with IA. Our investment means the company will start producing Durabric, a low-carbon alternative to clay burnt bricks. With our support the business will also strengthen the local construction industry through training and connecting with local entrepreneurs in an affiliated producer network.

Our commitment: $5.5m equity.

Co-investors: LafargeHolcim.



Impact Accelerator size
$60m (around £40m) pilot

Geographical focus
Africa and South Asia

Target impact
Creating local economic opportunity, better serving the underserved and building business capacity

Sector focus
Sector agnostic

Investment strategy
Investments typically made alongside multinational corporations, strategic regional partners or CDC investees

Deal size
Around $10m per investment

Return profile
Appropriate risk-adjusted return

Image: 14 Trees, an Impact Accelerator joint-venture with LaFargeHolcim

Contact us
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