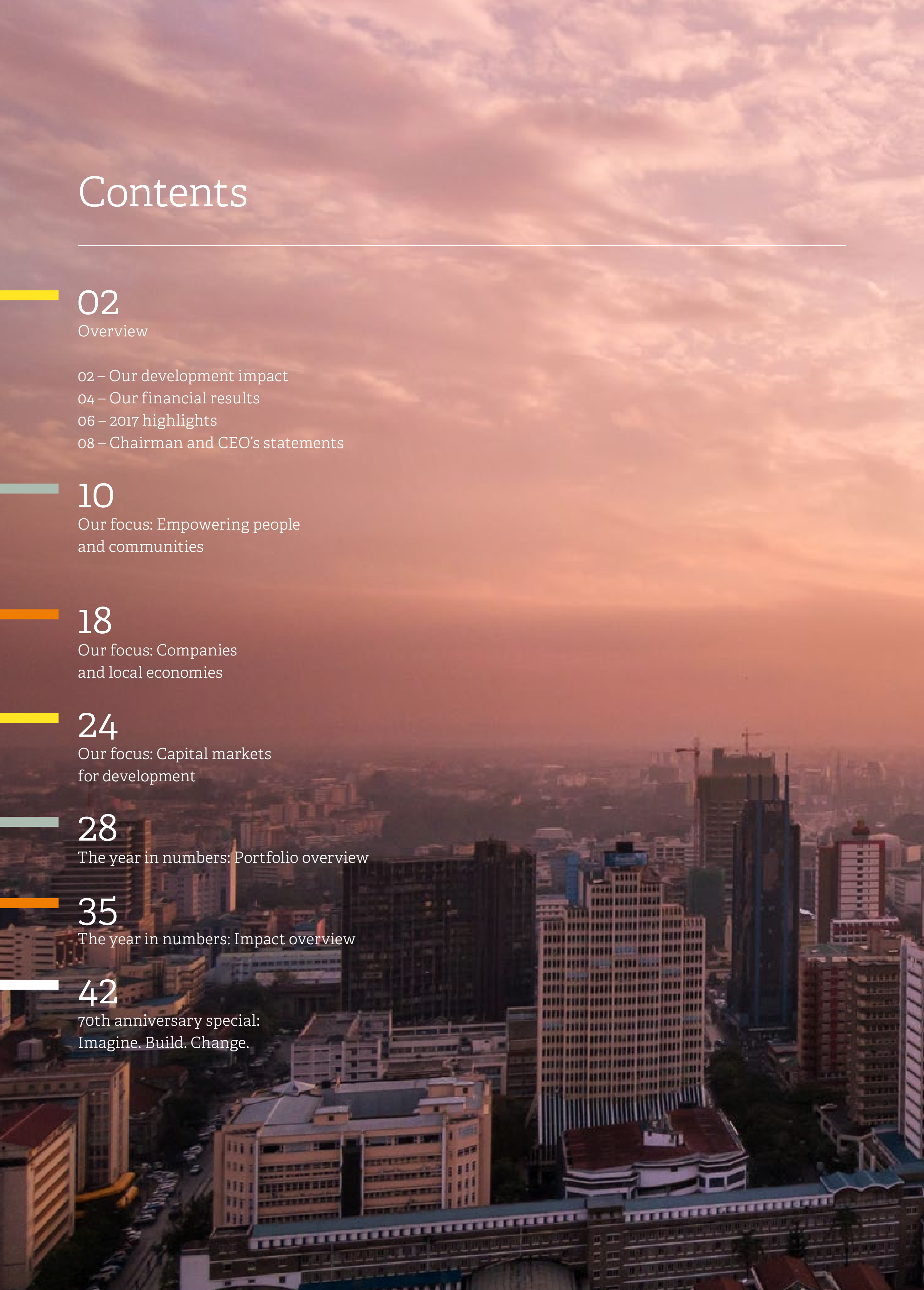
Forward with purpose

CDC Group plc
Annual Review 2017

CDC
Investment works



Contents

CDC is the UK's development finance institution.

For seventy years we have been investing in businesses in the world's poorest countries to create jobs and make a lasting difference to people's lives.

www.cdcgroup.com

Our development impact: broadening our approach

No country has escaped poverty without a thriving private sector playing a full role in developing a strong economy that generates the wealth and tax receipts needed to build infrastructure, provide public services and create jobs.

Our 2012–2016 strategy pinpointed job creation as our main development focus, because having a job is one of the best routes out of poverty. During that strategy period, we started to form a better understanding of the breadth of our impact beyond jobs: our impact contributes to the achievement of many of the UN Global Goals for Sustainable Development (Global Goals).

We reflected this broader impact in our new Strategic Framework in July 2017, and since publication we have been working to refine our thinking even further. We've been considering the impact we have at three different levels: people and communities, companies and local economies, and capital markets.

Our mission is to make a lasting difference to people's lives. This means that the ultimate impact we want to have is on people and communities. In terms of how we achieve this impact, we do this through the businesses we invest in, and the sectors, markets and wider economies that they operate in. The way we achieve impact as an investor is by targeting capital where it's needed most, adding value beyond just providing capital, and mobilising other investors to invest in these regions (see figure 1).

Understanding key themes in our portfolio

In June we launched a report with the Centre for Health Policy at Imperial College on how the private sector can help to support universal health coverage. Following the success of this healthcare framework, we commissioned the National Foundation for Education Research to produce a framework focused on the potential positive and negative impacts of private investment in the education sector.

We have also commissioned the Southern African Institute for Policy and Research to study how commercial producers and distributors are enhancing the affordability of protein-rich foods for low-income and underserved populations in Zambia. The study incorporates lessons learned from one of our investee companies, as well as other key companies in the market.

We are supporting several other research and evaluation projects, including an evidence review on the development impact of different types of connectivity investments.

Where we achieve impact (Figure 1)

Our role as an investor

Targeting capital to the private sector	Adding value beyond capital	Mobilising private sector capital

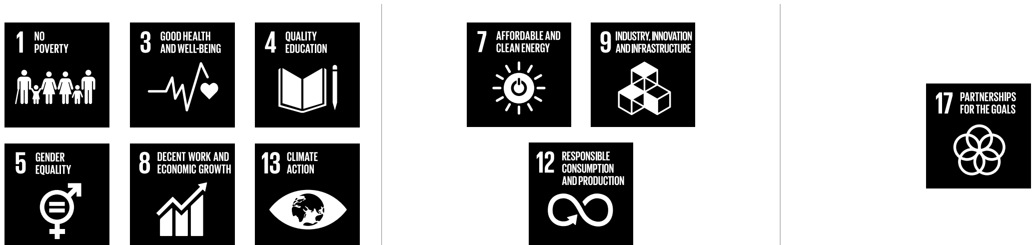
Who our impact benefits

People and communities	Companies and local economies	Capital markets

Where we seek development impact

Job creation	Sector specific impacts	Greater availability of capital
Outcomes beyond jobs	Business standards	Market leadership
Thematic impacts	Payment of taxes	Product innovation
	Earnings growth	

How we support the UN Global Goals



To help realise and track the effects of our investments, we have worked throughout 2017 on enhancing our capability to deliver and evaluate development impact. Initiatives include: embedding development impact experts within our investment teams; identifying which impact metrics will best help us track progress; extending our evaluation and research capabilities (see box); and publishing information on the expected impact of our investments. All this will create a strong feedback loop to learn from our own experiences and those of our peers.

Some of this work is detailed in this Annual Review. More impact data is reported on pages 35–41 and our strategic themes are reported throughout (job quality on page 13; women's economic empowerment on page 14; and climate change on page 16). Further information about our impact can be found on our website at cdcgroup.com

13m

In 2017, our investments affected at least 13 million people, by improving healthcare, supply chains, jobs, agri-purchasing and education (see pages 35–41 for more information)

Our financial results

We invest in businesses to generate impact and we support their growth so they continue to succeed well beyond our involvement. In doing so, we make a return that allows us to make new investments and create even more impact.

In 2017, we increased our total assets to £5.1 billion (£4.8 billion in 2016) and increased our portfolio to £3.9 billion (£3.8 billion in 2016).

Our overall result is a total loss after tax of £72.8 million (compared with £604.1 million profit in 2016), which represents a loss of 1.5 per cent on net assets this year (compared with 15.5 per cent profit in 2016). The average annual return on net assets since 2012 is 7 per cent.

£5.1bn

Total net assets

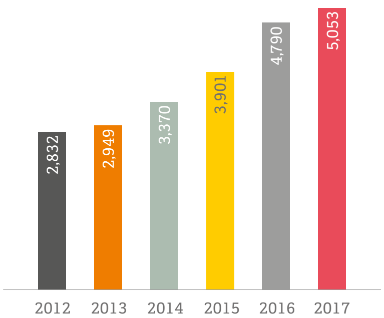
£3.9bn

Portfolio

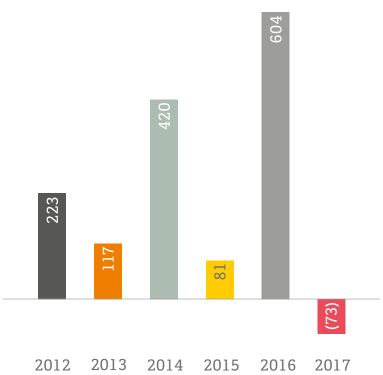
£1.05bn

2017 new commitments

Total net assets
(£m)



Total return after tax
(£m)



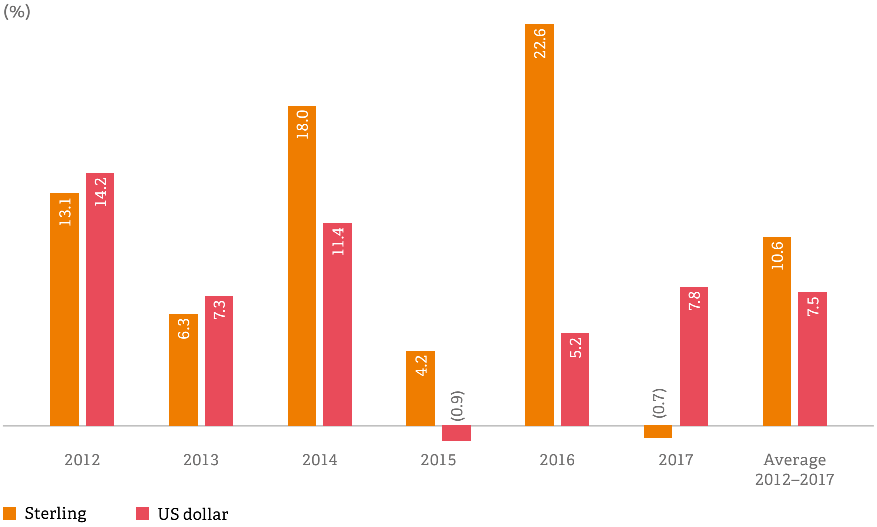
Most of our portfolio is denominated in US dollars. This means that our sterling results can be affected by currency translation. In 2017, our sterling results suffered from losses following an increase in the sterling to US dollar exchange rate. In sterling terms, our portfolio return was -0.7 per cent (compared with 22.6 per cent in 2016). However, in US dollar terms, our portfolio generated a return of 7.8 per cent (compared with 5.2 per cent in 2016).

In any isolated year, market conditions or events may drive exceptional performance, as demonstrated by the sterling results for 2016 and 2017. However, as a development finance institution (DFI), we invest to generate returns over the long term. Therefore, the 2012–2017 average portfolio return of 10.6 per cent (see chart below) provides a more consistent picture.

Our aim is to achieve robust financial returns alongside development impact. In 2017 we sold most of our stake in Ujjivan Bank. Following our initial investment in 2015, the former microfinance institution (MFI) doubled its loan portfolio to over $1 billion. The bank now serves 3.7 million customers across 24 Indian states and employs close to 11,000 staff. We also supported the company in its successful transformation from an MFI into a deposit-taking retail bank delivering impact at scale. Ujjivan's May 2016 debut on the stock market saw significant interest from domestic and foreign institutions and our successful exit through the public markets is also a strong testament to the appeal of impact businesses to investors.

Last year also saw two of our loan investments – Standard Bank Malawi ($25 million) and RBL Bank Limited ($50 million) – repaid in full.

Portfolio return
(%)



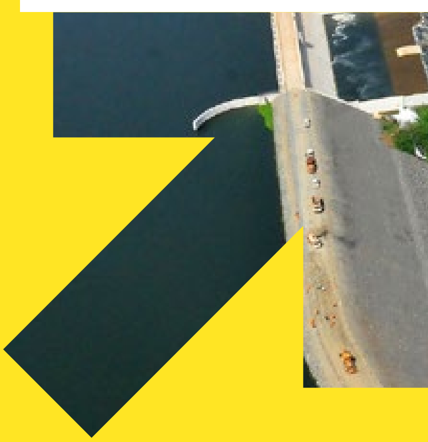
2017 highlights

FEBRUARY

+ The Act of Parliament raising the level of financial support that can be provided to CDC is passed.
+ The UK Government publishes its Economic Development Strategy. CDC is integral to how the UK will boost economic growth and job creation across developing countries.

APRIL

+ We launch a joint venture with the Aga Khan Fund for Economic Development to boost power generation in sub-Saharan Africa and mobilise funding of $1 billion for new projects, including in the African Great Lakes region.



JUNE

+ We launch a report with the Centre for Health Policy at Imperial College, London, on ways to harness the private sector to achieve universal health coverage. It offers advice to investors and businesses.
+ Nick O'Donohoe becomes CEO of CDC.

JULY

+ Our new five-year strategy is launched. It will see us invest more boldly; broaden our development impact; and look for new ways to mobilise capital in developing countries.
+ Our Impact Fund, now in its fifth year, makes two new investments: the first, the Medical Credit Fund, is to provide credit to small and medium-sized healthcare providers across Africa; and the second, the Fund for Agricultural Finance in Nigeria, is to help finance small businesses in Nigeria's agriculture sector.

AUGUST

- Our role as a pioneering investor continues as we back Solon Capital Holdings and Africa CapitalWorks Holdings. Both are permanent capital vehicles and Solon is Sierra Leone's first. Permanent capital vehicles offer many of the features of a traditional investment fund, but have the flexibility to invest in businesses over longer periods of time – something sorely needed in many African markets.

OCTOBER

- An 800 megawatt (MW) Egyptian solar power project gets the go-ahead thanks to lending by CDC and other development investors, including the International Finance Corporation (IFC). Approximately 350,000 homes will benefit from clean, cost-effective power from the Nubian Suns project, part of the world's largest solar park, based near Aswan.

NOVEMBER

- We establish MedAccess, an innovative social finance company, as one of our new market-shaping strategies. With an initial capital commitment of £148.1 million, it will work with manufacturers and buyers of health commodities to overcome market failures that result in these vital commodities often being unaffordable, out of stock, or poorly-suited to the needs of communities in Africa and South Asia.

DECEMBER

- 700,000 homes in East Africa now connected to M-KOPA's low-cost solar home energy kits.
- We make two investments in India aimed at creating economic opportunity and providing affordable services to poor and underserved communities. One of those investments, the Aavishkaar Emerging India Fund, backs rural businesses, such as Milk Mantra in Odisha state, which sources from over 50,000 smallholder farmers.

Taking our legacy forward

"We are proud to be a key part of DFID's wider Economic Development Strategy."

A message from Graham Wrigley, Chairman

2017 was another important year for CDC. It marked the start of our new five-year strategy period. Published in July, our Strategic Framework sets out our ambitions to transform economies, businesses and lives in Africa and South Asia, and was informed by an important and valuable consultation process with stakeholders. I would like to personally thank everyone who contributed. Your insight and expertise helped shape our direction and we look forward to working with you as we deliver the strategy over the coming years.

I was pleased to welcome our new Chief Executive, Nick O'Donohoe, who will lead CDC through this next ambitious phase. In doing so, he is, or course, supported by our Board and the wider team. As we enter our 70th year, I am reminded of the hard work and determination of so many people over the decades and the difference they have made to so many of the world's poorest communities.

Developments in 2017 mean that we will continue to be able to make a significant difference over the coming decades. Our shareholder, the Department for International Development (DFID) made CDC a key part of its Economic Development Strategy to meet the Global Goals, and announced its commitment to invest up to £3.5 billion of new capital over the next five years into CDC. This additional investment was made possible by the passing of the CDC Act, which raised the level of financial support that can be provided to CDC.

I was delighted that the Act was passed with cross-party support. This is vital for CDC given the long-term nature of our investments, often spanning several parliamentary terms, so I would like to thank today's Parliamentarians for their constructive engagement and thank all those who have challenged and supported CDC across the last seven decades. We will do our very best to make CDC an institution that Britain can be proud of. Our purpose is to achieve lasting impact for some of the world's poorest people, and it is this responsibility and opportunity that drives us forward.

Graham Wrigley
Chairman

A message from Nick O'Donohoe, CEO

I am delighted to introduce CDC's Annual Review for the first time.

For 70 years, CDC has focused on investing capital to improve the lives of poor people. This development mission has always been at the heart of what we do, and our Strategic Framework, published last year, sets out how we will take our ambition to a new level. This includes broadening our development focus to shape the impact we have across a wider global development agenda, including in the economic empowerment of women, climate change, job quality, and skills and leadership. It also includes extending our investment approach to develop strategies to remove barriers to growth in nascent or failed markets, and making targeted investments in support of them that will improve lives, communities and economies.

Throughout my first year here, I've seen first-hand the difference CDC can make. Already, our capital is creating jobs and employing young people in some of the most remote areas of the Democratic Republic of the Congo and Pakistan. I have seen how we are funding internet access and better education in the poorest areas of Nairobi, investing in modern paediatric care in Bangalore, and contributing to new and renewable sources of power in Lagos.

Our new strategy and the support of our shareholder gives us the opportunity to go even further. Over the coming years, we have the potential to transform whole industries. We will be providing more local currency financing to help deliver power to the 600 million people in sub-Saharan Africa who still live without it. We will be using innovative new guarantee facilities to increase affordable access to critical medicines. And we will be driving the development of new investment funds in some of the world's most difficult countries.

It is an enormous privilege to be the Chief Executive of this organisation and an important responsibility to carry forward CDC's legacy. Over the past 70 years, CDC has made a real and tangible difference to people's lives in many of the world's poorest communities but the challenge of meeting the Global Goals is a huge one and we have a vital role to play. This Review sets out how we propose to do that.

Nick O'Donohoe
CEO

"Over the past 70 years, CDC has made a real and tangible difference to people's lives in many of the world's poorest communities."

Empowering people and communities

Our mission is to make a lasting difference to people's lives. This means that the ultimate impact we want to have is on people and communities in the countries where we invest. We can do that by supporting businesses to create good-quality jobs that help lift people out of poverty. But beyond jobs, we can also improve people's lives by helping improve healthcare and education, and increasing access to finance, electricity, and affordable goods and services.

Supporting jobs in challenging places

This year, our portfolio in Africa and South Asia employed nearly three-quarters of a million people (734,000). Of these jobs, 63,000 were newly created.

Since 2014, when our reporting on jobs began, the average annual job creation rate in our investee businesses is 6.3 per cent. This compares to a background growth rate of 2.2 per cent in our regions over the same period.

The job creation rate of the businesses in our portfolio has continued to increase in Africa and South Asia this year, and is growing at a particularly fast pace in India. Our investments in financial services in the country, including in banks and microfinance institutions, are generating a large proportion of this growth. The average direct employment growth rate in 2017 in these types of businesses was 1.5 times higher than for the rest of the portfolio.

Since 2014, we've also been analysing the number of jobs supported and created indirectly through our work. We estimate that in 2017, the indirect jobs supported by our investee businesses include more than three million jobs supported by supply chain purchasing and the spending of wages, and more than one million jobs supported by the productivity effects of power generation and distribution. This analysis has also enabled us to estimate a combined total of direct and indirect jobs created by our portfolio. This year, that number is 1.4 million.

These indirect job numbers are all indicative, based on a cutting-edge model developed by leading economists. These are difficult impacts to measure, so we're keen to keep improving the model. We do this by regularly testing it in real world situations and comparing with our peers to check and refine its accuracy. For example, recent fieldwork conducted by CDC and our partners challenges some of the assumptions in our model, particularly as it relates to loans made by financial institutions (see box).

Any improvements and changes to the model will be reflected in future years.

You can find out more about our model at cdcgroup.com/about/our-company/how-we-operate

Jobs supported by access to finance

Not only do our investments in financial services support jobs directly, they also support jobs indirectly by providing better access to finance.

RBL Bank in India is a good example. We partnered with RBL Bank and the IFC to understand the link between small and medium enterprise (SME) financing and growth. Our study showed that bank loans to SMEs are used to grow businesses, to improve productivity, and to create jobs. However, it also showed that the loans provided to small businesses created fewer jobs than our existing method of quantifying indirect jobs would have predicted.

We will undertake more studies like that with RBL Bank, and work with respected economists to refine our model.

734,000

jobs supported by our portfolio in Africa and South Asia

Working with companies to ensure decent work

Global Goal 8 promotes sustained and inclusive economic growth and decent work for all. We know that to improve people's lives, providing access to not just a job, but a good-quality job, is vital.

In 2017, as part of our Strategic Framework, we made additional commitments to enhancing our focus on job quality. Job quality is a broad and complex topic. Diverse factors can contribute to a 'good-quality' job, and the perceived quality of a job can also vary depending on the industry, country and the vulnerability of the employee.

Our minimum expectations on labour and working conditions are set out in our Code of Responsible Investing. Achieving even these standards 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 often work to build the capacity of our investee companies and fund managers to meet good international practice in areas such as occupational health and safety.

Under our new framework, we will expand our understanding of job quality in the following ways:

+ Greater tracking and measurement of job quality improvements.
+ Delivering more training on health and safety, labour standards and working conditions to fund managers and investee companies.
+ Identifying and addressing skills gaps in our portfolio that limit job quality.
+ Identifying initiatives and activities to help improve job quality and manage associated risks, such as modern slavery, in the supply chains of our portfolio companies.
+ Creating further guidance and tools to support our portfolio companies and fund managers on how to improve job quality.

We have also been working with other DFIs and the Let's Work Partnership to produce a report looking at how decent work and Global Goal 8 can be practically applied to the realities of development finance investments.

RFL Electronics (REL), Bangladesh

Improving work place practices is essential for employee wellbeing and job quality but also for the success of the business. We've been working with REL in Bangladesh to drive improvements to its workforce and demonstrate the business case for moving towards international standards, including within the wider PRAN-RFL group of which it is part.

REL produces consumer electronics and white goods destined for Bangladeshi consumers. The company has a direct workforce of approximately 254 employees across two industrial sites and about 120 contracted workers involved in the construction of some of its greenfield buildings.

CDC and Standard Chartered Bank Bangladesh provided £11.1 million in debt financing to REL following a lengthy period of collaboration. The partnership was developed when, during our due diligence, we identified opportunities to enhance labour practices, health and safety, and contractor management.

Aligning with international standards and addressing difficult labour issues can be a lengthy process, but REL has made significant progress. We delivered on-the-ground training and workshops to build the company's own know-how, enabling it to develop its own policies and procedures, and roll them out to other companies within the PRAN-RFL group.

REL has strengthened oversight of its contracted workforce and is devoting more resources to improving workers' welfare and safety. It is also providing better accommodation, boosting food quality and improving the accuracy of contractor payroll payments. And as for the business case, initial feedback shows that productivity is increasing as a result.

Advancing the economic empowerment of women

Across the globe, including in the markets where we invest, women's economic participation is limited by the discrimination and unequal opportunities they face. Standing in the way of their full economic participation lies a host of barriers. These include structural inequalities such as restrictions on where and how women can work; policies that limit women's control over land, assets and capital; and socioeconomic discriminations resulting in women occupying low-quality, often unpaid, work.

These factors affect a woman's agency, power, voice and ultimately, her ability to enjoy fundamental freedoms which should be universal to all. And they also dilute the potential financial contribution that women can bring to businesses and the wider economy.

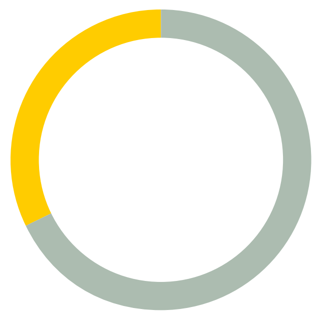
"As an investor, we are committed to help close the gaps between men and women while demonstrating to the wider investment industry the social and economic value of investing in women."

Women's jobs in our portfolio

In 2017, 32 per cent of the direct jobs supported by African and South Asian businesses in our portfolio were held by women. While this is slightly up on last year's figure, the proportion of jobs for women has remained at around 30 per cent for the past few years. One reason for this is the declining participation of women in India's labour force. Within this picture, we are seeing some high-performing businesses and sectors. In health, education and manufacturing businesses, women make up half of the workforce. For example, Rainbow Hospitals, an Indian paediatric and maternity hospital chain, reports a workforce that is 72 per cent female in 2017, up from 55 per cent in the previous year.

Direct jobs supported – by gender
(%)

Women 32%
Men 68%



RBL Bank, India

RBL Bank has introduced several initiatives to support both female employees and customers. For example, in the city of Chennai, the bank opened its first branch managed and staffed solely by women and it also runs a yearly leadership skills programme for 50 female staff. For its 1.5 million female customers, RBL provides banking services, remittances and financial literacy training to support financial inclusion.

As an investor, we are committed to help close the gaps between men and women while demonstrating to the wider investment industry the social and economic value of investing in women.

We set out our commitment to women's economic empowerment, and our role in contributing to Global Goal 5 on gender equality, in our Strategic Framework. We detailed how we will create economic opportunity for women and highlighted that we want to work with others to improve the ways that investing can promote women's empowerment.

Since then, we've been thinking about the role that a DFI like CDC can play. We believe there are three key areas we can influence – workplace equity, fairer access to products and services, and access to finance.

Our recent gender strategy sets out how we will engage with companies where we think we can create the greatest impact, and how we will identify and support 'gender-smart' opportunities in our investments. This involves looking for positive outcomes for women across the business value chain: considering their roles as leaders, employees, entrepreneurs, suppliers, and customers and community leaders.

> "We believe there are three key areas we can influence – workplace equity, fairer access to products and services, and access to finance."

1.5m

female customers supported by RBL Bank

Addressing the causes and effects of climate change

One of our priorities is to help companies address the causes and effects of climate change. This is particularly important in Africa and South Asia because countries in these regions are among the most vulnerable and least resilient to the impacts of climate change.

We do this in two ways – first by promoting low carbon growth by investing in new clean sectors, and secondly by helping businesses that we invest in, regardless of sector, to become climate smart. Once invested, we aim to be inclusive in our impact by ensuring that everyone affected by the company's operations benefits. In this way, we can help businesses have a significant positive impact on the people and communities they serve and work towards contributing to Global Goal 13 on climate action.

"Last year, we stepped up our investments in clean power generation."

Opportunities for supporting a reduction in the effects of climate change can arise before and after investments are made. Last year, for example, we stepped up our investments in clean power generation. These include the Kenyan off-grid solar power company M-KOPA and Zephyr Power, a renewable energy business in Pakistan. We also established Ayana Renewable Power, an investor in clean power focused on the less-developed regions of South Asia. When we make investments in renewable energy projects such as these, we commit to ensuring that the opportunities created will benefit local communities. We do this by looking at ways in which we can increase access to energy and create good-quality jobs for people and local communities. We also support training initiatives so local people develop transferable skills relevant to the growing clean power sector.

Rainbow Hospitals became the first EDGE-certified hospital in India

27%

reduction in energy consumption

32%

reduction in water use

“The business case for mitigating climate change and implementing resource-efficiency measures is strong.”

Our support for addressing climate change goes beyond the renewable power industry. Our Resource Efficiency Facility provides finance to enable the businesses we invest in to reduce their climate footprint and save money. For example, in 2017, we used the facility to help Rainbow Hospitals in India become the first EDGE-certified hospital. As a result of achieving certification for “Excellence in Design for Greater Efficiencies” (EDGE), the hospital reduced its energy consumption by 27 per cent and its water use by 32 per cent.

Our work shows the business case for mitigating climate change and implementing resource-efficiency measures is strong. In 2017, we completed a portfolio-wide water risk assessment to identify companies which could be exposed to future changes in the availability of fresh water. Malawi, for example, has endured devastating floods and droughts in recent years. We worked with a local university to help Jacoma Estates, an agribusiness we're invested in, to understand the impact these conditions have had on its water supply. The measures we helped to implement will enable the company, and the smallholder farmers who supply it, to better conserve this vital resource.

Over the coming years, we intend to build on our work to address climate change. One area we will focus on is construction. But regardless of the sector, we will support all our investee companies to address climate change issues and support them in their efforts to benefit their local communities.

Ayana Renewable Power, South Asia

In 2017, we established Ayana Renewable Power with 100 per cent funding. It is a new business that invests in wind and solar power projects in the poorest parts of South Asia – including in India, Pakistan, Sri Lanka and Myanmar.

We have produced a community development strategy to implement skills development and energy access programmes for every power project in which it invests. This is to ensure that Ayana's activities reach the people who need it most, whether it is through the jobs it creates or the energy it provides.

Ayana will provide training for technicians, plumbers, carpenters and other such skilled trades, as well as renewable energy products, such as rooftop solar panels, to people living in the community.

Companies and local economies

Whilst the ultimate impact we want to have is on people and communities, we achieve this through the businesses we invest in, and the sectors and economies that they operate in. We support businesses in their ambitions to improve their standards, which in turn helps them access markets further afield that might otherwise be unavailable to them. And our investments can have a positive impact on a whole sector, for example by improving productivity in food and agriculture.

Targeting capital where it has the biggest impact

At the heart of our investment strategy is supporting the sectors that create the most jobs. Independent analysis of economic data for African and South Asian countries has helped us identify and target seven priority areas: construction and real estate, education, food and agriculture, financial services, health, infrastructure, and manufacturing. The analysis shows that these sectors contribute most to employment generation, including in supply-chains and the broader economy thanks to improved infrastructure and access to finance.

Our teams identify the key development needs within these sectors and target businesses that will best develop and grow these sectors in a way that has the most impact.

Sector focus: food and agriculture

The food and agriculture sector represents all business-related activities involved in the production, finance, marketing and distribution of food. For CDC, this includes businesses operating along the entire value chain, from inputs to food processing to farm equipment. Our current food and agriculture portfolio accounts for over $300 million, or 6 per cent of our total portfolio.

Almost all countries that have achieved sustained economic growth have done so by improving efficiency in the agriculture sector before developing other sectors. With around 40 per cent of Africa's population and one-third of South Asia's population employed in agriculture, this sector has huge development impact potential as a major employer.

We are building strong businesses across the food and agriculture value chain, which can create jobs and demonstrate to other investors that successful investments in the sector can be made in these regions. But food and agriculture is about much more than job creation. Our broader impact includes boosting local production and links with local suppliers; giving smaller producers a reliable route to market; boosting food security; increasing incomes; and tackling climate-related risks. This can be seen in our investment in Jacoma Estates in Malawi (see box).

To overcome the challenge of low productivity in the sector, and bring in more investment, we're backing businesses that create diversified agri-businesses. These can support smallholders to build more sustainable businesses, provide them with better access to markets and create more formal employment opportunities.

Jacoma Estates, Malawi

We are invested in Jacoma, a northern Malawi agribusiness producing high-value macadamia nuts, bird's eye chili and paprika. Jacoma has a big impact on many levels:

- Jobs – Jacoma employs around 700 people, including 250 women, with wages and benefits of over $300,000 annually.
- Smallholders – Jacoma will work directly with 5,000 smallholders in its value chain and aims to provide irrigation to almost 700 neighbouring smallholder farmers, covering 100 hectares of land.
- Climate – extended access to irrigation for the farm and local community will boost resilience. This will help farmers to better manage water resources and overcome seasonal impacts.
- Quality and productivity improvements – Jacoma provides fertilisers and other services to out-grower farmers to boost yields and improve agricultural practices.

Sector focus: financial services

Strong financial institutions and access to financial services are the cornerstones of development in all countries. That is why the financial services sector plays a central role in our approach to investing. Our investments in financial institutions currently represent around a quarter of our total portfolio or $1.3 billion.

Our main aim is to support the critical financial infrastructure that will support economic development in Africa and South Asia and channel much-needed domestic and foreign investment into local businesses.

The current challenge is stark. In the countries where we invest, access to financial services remains low and a lack of finance is often cited by small and medium-sized businesses as the number one constraint on job creation.

We work to tackle this challenge in three ways:

+ By investing in commercial banks, microfinance institutions and other non-bank lending institutions, such as housing finance companies.
+ By supporting innovative digital financial services, such as mobile money, where financial technology firms provide lending and deposits to individuals and small businesses outside of the banking system.
+ By exploring the insurance market to support access to low-cost products that enable consumers to plan for the future and overcome uncertainty.

Over 47 million customers now benefit from financial services provided by our investee companies.

We will continue to invest in and support new industries in the financial services sector. And we will back financial institutions in areas that include some of the most underserved and financially-excluded people, including in West and Central Africa.

Veritas Finance, India

At the end of 2017, we invested £7.8 million in Veritas Finance, a Chennai-based financial services firm.

Veritas lends to over 12,000 micro, small and medium-sized enterprise (MSME) customers in rural areas, most of which are outside the formal banking sector. Veritas provides long-term financing for business expansion and shorter-term loans for working capital. It operates branches and micro-centres throughout India, including in West Bengal and Odisha, two of the poorest and most populated states.

MSMEs make up the backbone of the informal Indian economy, but many firms find it difficult to access credit given their informal status and lack of documentation. Veritas helps these businesses to access capital at affordable rates, build a credit profile, and move into formal credit channels. Our equity investment will support the company's expansion into other economically-disadvantaged states, such as Andhra Pradesh and Telangana, and help it develop technology that will lower costs for its customers.

47m

Over 47 million customers now benefit from financial services provided by our investee companies

Improving business standards

We invest in some of the world's most challenging environments, where weak legal frameworks and a lack of regulatory oversight can lead to, for example, poor enforcement of labour laws or an inadequate health and safety culture.

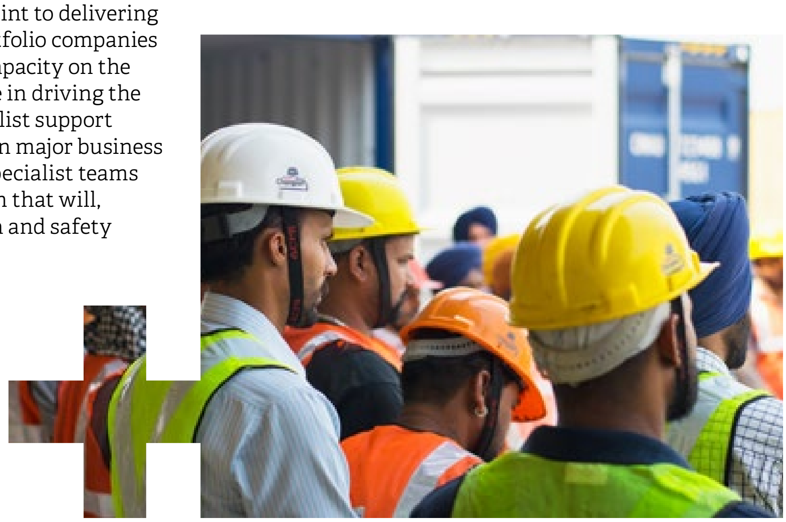
We know that responsible business practices are not only desirable for the people and communities where we invest, but make good business sense too. Companies that are compliant with, or exceed, national or international standards are more likely to attract further investment and gain access to new markets.

> "We know that responsible business practices are not only desirable for the people and communities where we invest, but make good business sense too."

Over the years we have developed guidance and toolkits to support the development of environmental and social (E&S) and business integrity (BI) expertise among our investees. However, one recurrent constraint to delivering improved E&S and BI performance at portfolio companies has been the lack of understanding and capacity on the part of boards of directors about their role in driving the agenda. Building capacity amongst specialist support teams is a key part of the picture, but when major business decisions are made at board level, those specialist teams need an understanding management team that will, for example, fund improvements to health and safety practices, or increase salaries.

Working with senior management and boards

We invested in Feronia, an agricultural production and processing business in the Democratic Republic of the Congo, in 2013. Since then we've been working with Feronia's E&S team and its understanding senior management team and Board. This has allowed us to support the company to increase salaries by over 70 per cent, and begin delivering a multi-million pound programme to improve housing, schools, hospitals and water access for employees and the local community.



In 2017, we developed a training masterclass with Kina Advisory to explore the role of the board of directors and senior management in setting and leading E&S and BI agendas that will support profitable and efficient businesses, and contribute to development outcomes.

The sessions build understanding around:

+ The importance of board leadership, culture and commitment to driving the E&S and BI agendas.
+ The role of boards in overseeing E&S and BI matters.
+ The types of E&S and BI risks that should be referred to boards.
+ Establishing a governance structure that provides robust and effective oversight of relevant E&S and BI issues.
+ Measures that can be taken to support the evolution of better E&S and BI practices within businesses or a portfolio.

The training helps senior management to understand how to run an effective corporate risk register, and when they need to create a specific environment, social and governance sub-committee to ensure such issues are given the right consideration. And for businesses that have low E&S and BI risks, the training provides practical advice on how to shape boards to deliver the right skills and expertise.

"As a CFO I really enjoyed the sessions hosted today all about business integrity and money laundering and anti-bribery. I think it really added good value."

Attendee at a CDC training course

Supporting business integrity

We have a strong focus on preventing and managing business integrity issues by developing and sharing best practice in integrity risk management with other investors. As well as mitigating risks to CDC and our investees, it helps to demonstrate that business integrity risks can be managed in high-risk markets. Risks includes the possibility that a company is involved in or associated with financial crime such as corruption, fraud, money laundering, sanctions, tax evasion and other criminal conduct.

One of the ways we do this is by reviewing potential investees' risk controls and securing their commitment to an action plan to implement and improve them prior to investment. We then support them to implement the plan after investment.

For example, in 2017 we worked with a South Asian manufacturing company, who we established lacked a business integrity framework. We worked closely with the sponsors to improve their understanding of their particular business risks and to implement internal controls, including an anti-bribery and corruption policy and third-party risk management controls.

Capital markets for development

We can multiply the impact of our input by encouraging more private investment in Africa and South Asia. One way to do this is by sharing our expertise, knowledge and data, and demonstrating the viability of investing in these markets.

Mobilising commercial investment to build sustainable economies

There is a strong need for more commercial investment in Africa and South Asia if we are to achieve the Global Goals by 2030. Developing countries face an annual investment gap of $2.5 trillion. We have always sought to mobilise third-party investors through our intermediated equity strategy, and we are now engaging more broadly with third-party investors, including those who are just starting to think about investing in our target geographies, to understand what support they need to invest.

Supporting the development of capital markets is vital if we are to secure further investment into Africa and South Asia. It is a key way that we can support countries in their transition from aid dependency to becoming vibrant trading economies. This is because as countries develop, access to grant aid decreases, but there often remains an investment gap as many investors remain cautious about the stability of business environments and the perceived risks. Therefore, as economies develop, we place more focus on the ways we can mobilise third-party capital and helping capital markets to develop, so that reliance on DFIs and grant aid can naturally reduce.

$593m – $690m

private capital mobilised alongside our own investments

$3.5bn

taxes paid by our investee companies in Africa and South Asia

“Supporting the development of capital markets is a way that we can support countries in their transition from aid dependency to becoming vibrant trading economies.”

Focus on Kenya

We rank all countries in Africa and Indian states in South Asia according to their investment difficulty (A representing the most challenging, through to D, the least challenging). We conducted a re-ranking exercise for our last Strategic Framework, and were pleased that Kenya's grading had progressed from 'B' to 'C'.

Kenya has been one of Africa's economic outperformers. It has benefited from lower commodity prices which, in combination with a more diverse economy, infrastructure development and a recovery in tourism, has sustained GDP growth in excess of 5 per cent over the last five years. GDP per capita has risen from $2,556 in 2011 to $2,925 in 2017, an increase of 14 per cent, compared to an average increase across sub-Saharan Africa of 5 per cent.

Kenya is becoming a key regional hub for a range of sectors, including financial services, telecoms and transportation. In the World Bank's 'ease of doing business' rankings for 2017, Kenya has risen from 109th in 2011 to 80th out of 190 economies globally, and has become the third highest in sub-Saharan Africa after Mauritius and neighbouring Rwanda.

Kenya has also seen a sustained increase in private capital investments and has become one of the most active countries for commercial private equity on the continent. There were 19 private capital investments in 2017, nearly double the number for 2011, and second only to South Africa among sub-Saharan African countries (source: EMPEA). Domestic credit to the private sector has risen from 27 per cent of GDP in 2010 to 33 per cent in 2016.

While across many indicators Kenya's investment environment is improving, the growth of the country's stock exchange has been slower, and supporting its growth is an important component in deepening the availability of capital to support the growth of Kenyan businesses. According to a report published by PWC, Kenya's stock exchange has had just two initial public offerings (IPOs) totalling $42 million since 2013 (compared with eight in Tanzania, totalling $243 million, and 44 in South Africa, totalling $4,774 million). The transition from developing to developed economy is rarely smooth or straight, which is why it is important for DFIs such as CDC to provide support.

Africa Logistics Properties, Kenya

The cost of moving goods in Africa is estimated to be up to two or three times higher than in developed countries, which means that transport costs can make up as much as 50–75 per cent of the retail price of goods. Quality warehousing improves operational efficiencies by reducing waste from poor storage, increasing the speed of product delivery and improving product security, but these sorts of properties are currently scarce across most of sub-Saharan Africa. In addition, providing access to quality logistics will encourage global companies to ramp up businesses on the continent. Therefore, in 2017, we committed to invest up to £19.9 million in Africa Logistics Properties, a Nairobi-based greenfield property developer that acquires, develops, and manages modern logistics and industrial real estate facilities across East Africa.

M-KOPA, Kenya

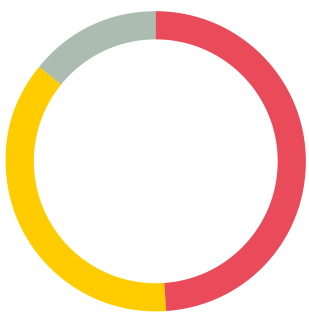
M-KOPA aims to provide clean energy to one million homes in Kenya by the end of 2018. The company sells home solar systems to predominantly low-income customers, who pay through mobile-money payment plans. The company received initial grant funding from DFID, and has subsequently received both equity and debt financing from CDC, including an additional £15.4 million investment in 2017. To date, the business has connected over 700,000 homes, which now enjoy over 50 million hours of kerosene-free lighting a month.

2017 investments: a region and country perspective

Since 2012, we have only made new commitments in Africa and South Asia. At the end of 2017, we were invested in 715 business in Africa and 338 in South Asia. You can find out more about our portfolio by region and country on our website at cdcgroup.com/our-investments

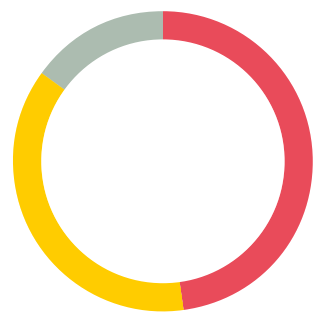
Porfolio by region

- Africa £1.9bn (49%)
- South Asia £1.4bn (37%)
- Rest of the world £0.6bn (14%)

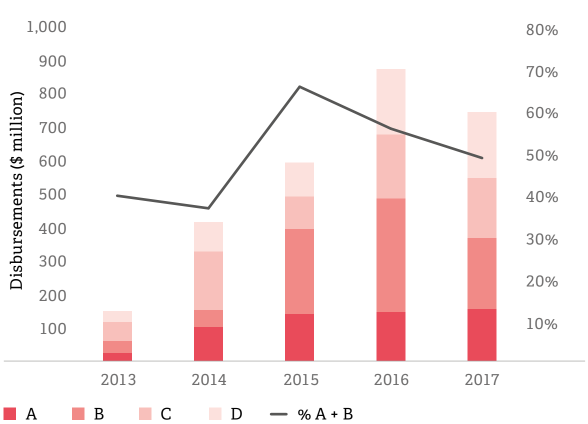


2017 commitments by region

- Africa £499.5m (48%)
- South Asia £399.5m (37%)
- Pan-region £148.1m (15%)



Targeting capital to challenging countries



Our development impact grid directs our investment towards more challenging countries. Guided by economists, we have graded each country and define investment difficulty based on income level, investment in the private sector, difficulty in running a business, and state fragility. There are four grades, A–D, with A representing the most challenging. In India, investment difficulty is calculated state-by-state.

In 2017, we invested in 38 countries classified as having the most difficult investment environment (A and B countries). Just under half (49 per cent, $365 million) of our disbursed investments went to such countries. This is slightly lower than 2016 because of our decision to back impactful investments in countries ranked as having less challenging investment environments, such as Kenya and Bangladesh.

Malawi

While agriculture remains Malawi's largest sector, factors such as climate change and poor access to markets for farmers have hampered economic development. That is why, in 2017, we made two new investments in food and agricultural businesses in the country.

We invested £11.6 million in poultry company Kamponji Enterprises Limited. As well as creating jobs and ensuring people in Malawi have an affordable and reliable source of protein, the investment is also aimed at supporting local farmers who supply the company.

We also backed Cattle Feedlot, a company with 3,700 hectares of drought-damaged land. Our £4.1 million investment will help the business restore the quality of its soil and significantly improve its yield.

Overall, we now have six investments in Malawi, one of the world's poorest countries.

£11.6m

invested in Kamponji Enterprises

£4.1m

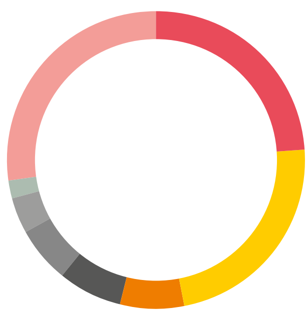
invested in Cattle Feedlot

2017 investments: a sector perspective

Our seven priority sectors make up the majority our portfolio. You can find out more about our portfolio by sector on our website at cdcgroup.com/our-investments

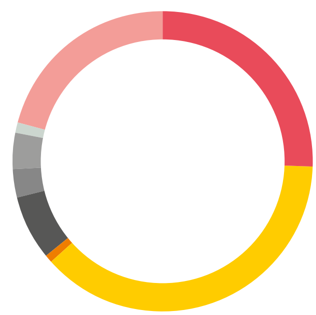
Portfolio by sector

- Financial services £942.0m (24%)
- Infrastructure £902.4m (23%)
- Manufacturing £272.5m (7%)
- Health £258.8m (7%)
- Food and agriculture £252.5m (6%)
- Construction and real estate £178.0m (4%)
- Education £77.0m (2%)
- Other £1,040.1m (27%)

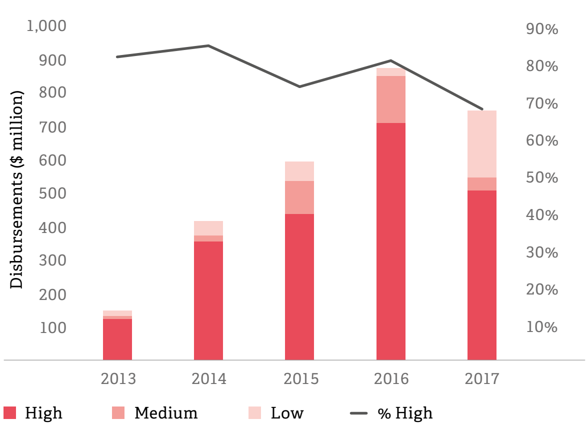


2017 commitments by sector

- Financial services £268.9m (26%)
- Infrastructure £407.2m (38%)
- Manufacturing £11.1m (1%)
- Health £75.6m (7%)
- Food and agriculture £28.0m (3%)
- Construction and real estate £40.4m (4%)
- Education £0.4m (<1%)
- Other £215.5m (21%)



Directing investments to priority sectors



Our development impact grid directs our investment towards seven priority sectors, which have the strongest potential to create the most jobs for the capital invested and contribute towards many of the Global Goals. We continue to make significant commitments in the infrastructure and financial services sectors because these are often cited as barriers to growth in our other priority sectors.

In 2017, over two-thirds (68 per cent) of our disbursed investments went to high-priority sectors. The increase in other ('low-priority') sectors (up from 19 per cent in 2016 to 32 per cent in 2017) is due to increased activity by generalist fund managers.

Renewable power

Demand for electricity in Pakistan outstrips the country's reliable generation capacity by around 25 per cent, and the country is currently overly reliant on fossil fuels, so investment in sources of reliable, clean electricity is important.

In 2017, we became the largest shareholder in Zephyr Power, a renewable energy company in Pakistan. The business is developing a 50MW wind-powered site, just outside the city of Karachi.

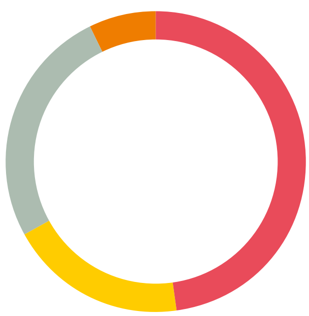
We worked closely with Zephyr for more than two years before the investment was made, providing guidance on the structure of the project and negotiations with contractors and regulators.

We continue to support Zephyr, particularly when it comes to environmental and social issues. Our work has included providing training for the company's recently recruited environmental, social and governance team.

2017 investments: an investment product perspective

2017 commitments by investment type

- Direct equity £498.2m (48%)
- Debt £201.9m (19%)
- Intermediated equity £273.0m (26%)
- Guarantees £74.0m (7%)



Solon Capital Partners

The standard investment fund model, which commits to returning capital or assets to investors within a fixed period of time, typically ten years, does not meet the needs of some African markets, where longer-term capital is required to build strong businesses.

This is why, in 2017, we invested £15.5 million in Solon Capital Partners, an investment holding company based in Sierra Leone. Solon is a permanent capital vehicle, which provides returns to investors through dividends and exits at the holding company level, rather than through exits from an investee business. This enables Solon to provide capital to businesses on a more flexible and long-term basis.

Solon currently supports four businesses, which operate in Sierra Leone, Liberia, Guinea and Côte d'Ivoire. The businesses include Flash Vehicles, one of the largest vehicle rental, leasing and fleet management companies in the region.

Direct investment commitments

	£m	Region	Country
Africa Logistics Properties	19.9	Africa	Kenya
Alcazar Energy Egypt Solar 1 SAE	9	Africa	Egypt
ARC For Renewable Energy SAE	8.6	Africa	Egypt
Arinna Solar Power SAE	2.7	Africa	Egypt
Asian Institute of Medical Sciences	16.1	South Asia	India
Aten Solar Power SAE	11.7	Africa	Egypt
Ayana Renewable Power	79.9	South Asia	India, Pakistan, Sri Lanka and Myanmar
Bangla Offshore LNG	19.4	South Asia	Bangladesh
Delta for Renewable Energy SAE	8.2	Africa	Egypt
Globeleq Limited	21.6	Africa	Côte d'Ivoire, Cameroon, South Africa, Tanzania and Kenya
Healthcare Global (Africa)	4.1	Africa	Kenya
Horus Solar Energy SAE	11.7	Africa	Egypt
IHS Zambia	19.4	Africa	Zambia
Manipal	47.7	South Asia	India
Miro Forestry Company	0.7	Africa	Ghana, Sierra Leone
M-KOPA	5.3	Africa	Kenya, Uganda
Onomo Hotels	40.4	Africa	South Africa, Togo, Mali, Guinea, Côte d'Ivoire, Senegal, Gabon and Rwanda
Phoenix Power SAE	8.7	Africa	Egypt
RBL Bank Limited	76.3	South Asia	India
RFL Electronics Limited	11.1	South Asia	Bangladesh
SMBCE MRPA	74	Africa	Pan-Africa
SP Energy (Egypt) SAE	5.2	Africa	Egypt
Te Power	29.5	Africa	Guinea
UNIC Online Limited	0.4	Africa	Pan-Africa
Utkarsh Small Finance Bank	20.4	South Asia	India
Winnergy for Renewable Energy Projects SAE	2.8	Africa	Egypt
Zephyr Power	32.3	South Asia	Pakistan
Sub-total	**587.1**		

Market-shaping strategies	£m	Region	Country
Cattle Feedlot Company Limited	4.1	Africa	Malawi
CFAM Limited (now MedAccess)	148.1	Africa, South Asia	
Kamponji Enterprises Limited	11.6	Africa	Malawi
M-Kopa (Kenya)	13.9	Africa	Kenya
M-Kopa (Uganda)	1.5	Africa	Uganda
Veritas Finance Private Limited	7.8	South Asia	India
Sub-total	**187**		
Total	**774.1**		

Intermediated equity commitments

	£m	Region	Country
Aavishkaar Emerging India Fund	18.8	South Asia	India, Indonesia, Sri Lanka and Bangladesh
Africa Capitalworks	30.4	Africa	Pan-Africa
African Infrastructure Investment Fund III	34.8	Africa	Nigeria, Ghana, Tanzania, Mali
Catalyst Fund II	8	Africa	Kenya, Tanzania, Uganda, Zambia and Ethiopia.
Cepheus Growth Fund I	11.3	Africa	Ethiopia
DI Frontier Fund 2	24.1	Africa	East Africa
Dynamic India Fund S4 I	32.2	South Asia	India
Faering Capital Fund III	18.8	South Asia	India
Growth Catalyst Partners	3.8	South Asia	India
Maghreb Private Equity Fund IV	21.9	Africa	Tunisia, Egypt, Morocco and Algeria
Shorecap III	14.8	Africa	Africa
Solon Capital Holdings	15.5	Africa	Sierra Leone, Liberia, Guinea and Côte d'Ivoire
Sub-total	**234.4**		

Market-shaping strategies	£m	Region	Country
Energy Access Ventures Fund	4.4	Africa	Pan-Africa
Insitor Impact Asia Fund	3.3	South Asia	Myanmar, Cambodia, India and Pakistan
Medical Credit Fund	7.7	Africa	Pan-Africa
Myanmar Opportunities Fund II	11.6	South Asia	Myanmar
Sahel Capital – FAFIN	11.6	Africa	Nigeria
Sub-total	**38.6**		
Total	**273**		

A summary of our impact this year

As we set out on pages 2–3 of this Review, we consider the impact we have at three different levels – people and communities, companies and economies, and capital markets.

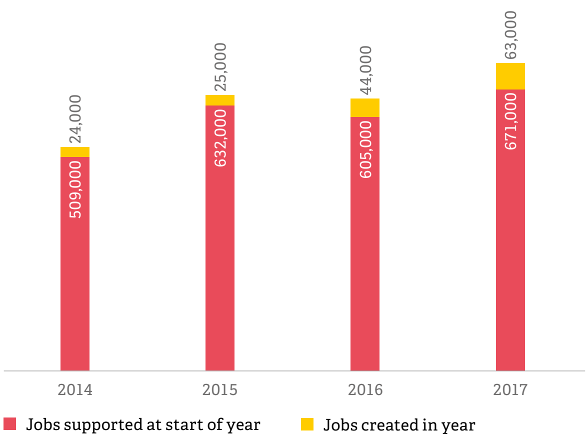
Our mission is to make a lasting difference to people's lives. This means that the ultimate impact we want to have is on people and communities – where we want to know what the impact is, who benefits, and how significant and lasting it is. In terms of how we achieve this impact, we do this through the businesses we invest in, and the sectors, markets and wider economies that they operate in. The way we achieve impact as an investor is by targeting capital where it's needed most, adding value beyond just providing capital, and mobilising other investors to invest in these regions.

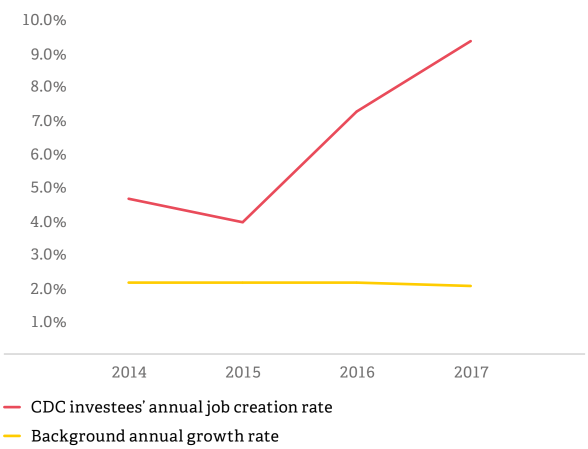
This year we have expanded our impact reporting, adding data at these different levels of impact, while ensuring consistent year-on-year reporting on the core portfolio metrics – jobs, taxes and private sector capital mobilised – that we have reported in previous years. We will continue to develop metrics and undertake case studies and deep-dive evaluations to expand this work in the future, and to improve data coverage and quality.

Impact on people and communities

For the first time, alongside the job data that we publish, we're also publishing some data that indicates our impact on people and communities more broadly. In 2017, our investments affected at least 13 million people, for example by improving healthcare, supply chains, jobs, agri-purchasing and education. These numbers do not include the over 47 million bank and non-bank financial institution customers served, nor the millions of households accessing electricity and connectivity through the businesses in which we invest.

We also want to understand how much difference is made to beneficiaries and their socio-economic status. Work to understand impact on our beneficiaries is ongoing through a mix of annual metrics and in-depth evaluations.





Jobs: direct workforce

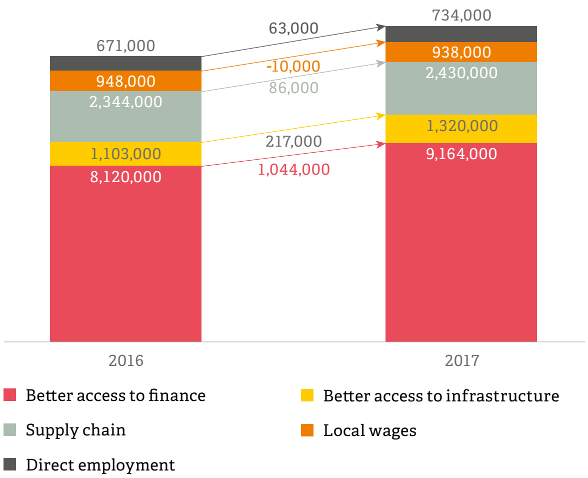
This year, our portfolio in Africa and South Asia employed nearly three-quarters of a million people (734,000, in 'full-time equivalents' as defined by 'harmonised indicators for private sector operations'[1]). Of these jobs, 63,000 were newly created.

Since 2014, when our reporting on jobs began, the average annual job creation rate in these businesses is 6.3 per cent.[2] This compares to a background growth rate of 2.2 per cent in our regions over the same period.[3]

32 per cent of direct employees are women, while over half of all workers in education and healthcare are women. And for a subset of investee businesses that have provided us with data on youth employment, 24 per cent of the workforce are aged 25 years and under.

It's not solely about the numbers of jobs supported and created, we also care about the quality of these jobs. Therefore, we are working on ways to measure key aspects of job quality.

1 https://indicators.ifipartnership.org/
2 The job creation numbers and rates are for net new hires for a constant group of investee businesses in the portfolio from one year to the next. New investments and exits create variation in the total of jobs supported. In addition, job creation figures are net of job losses – job losses in 2017 were 16,000, across 123 businesses (19 per cent of businesses).
3 International Labour Organisation, World Employment and Social Outlook: Trends 2018, http://www.ilo.org/global/research/global-reports/weso/2018/WCMS_615594/lang--en/index.htm



Jobs: indirect effects of supply chains, wages, power and loans

Since 2014, we've also been analysing the number of jobs supported and created indirectly through our work.

Revenue in our investee businesses was $42.6 billion in 2017, up 6 per cent on 2016. Business expansion enables a range of positive benefits, and some of these can be modelled to estimate the indirect employment effects of a firm's expansion.

We estimate that in 2017, our investee businesses supported more than three million indirect jobs and livelihoods through supply chain purchasing and the spending of wages. This equates to an indirect employment multiplier of an additional 4.6 employment opportunities for every directly-employed worker. In addition, we estimate that our investee businesses supported more than one million jobs from the productivity effects of power generation and distribution.

These indirect job numbers are all indicative, based on a cutting-edge model developed by leading economists. These are difficult impacts to measure, so we're keen to keep improving the model. We do this by regularly testing it in real world situations and comparing with our peers to check and refine its accuracy. For example, recent fieldwork conducted by CDC and our partners challenges some of the assumptions in our model, particularly as it relates to loans made by financial institutions.

Any improvements and changes to the model will be reflected in future years.

You can find out more about our model at cdcgroup.com/about/our-company/how-we-operate

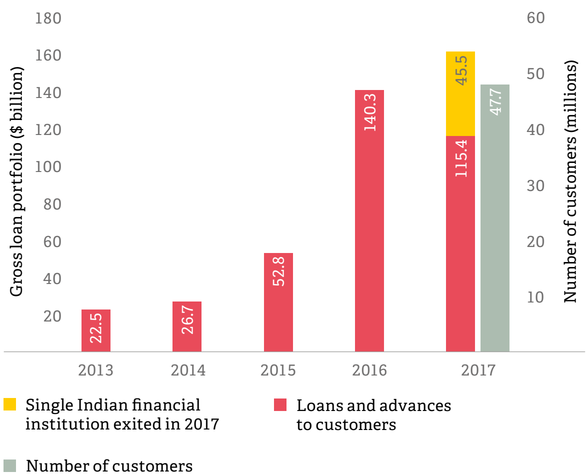
6.3%

average annual job creation rate, compared to background growth rate of 2.2%

Impact on companies and local economies

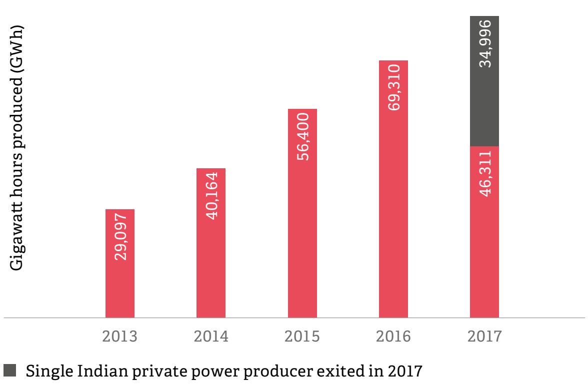
In 2017, we have continued to report our impact in the financial services and infrastructure sectors, and we are also starting to report on additional metrics in the healthcare, food and agriculture, and education sectors. We are still defining core impact indicators for our construction and manufacturing portfolio and these will be reported in future years.

There is currently no consensus on how to quantify our exact contribution to company, sector and wider economy growth. Since we do not have a robust way to weigh up the factors involved and attribute a portion of the impact to our own activities, we attribute the impact detailed below solely to our investee businesses.



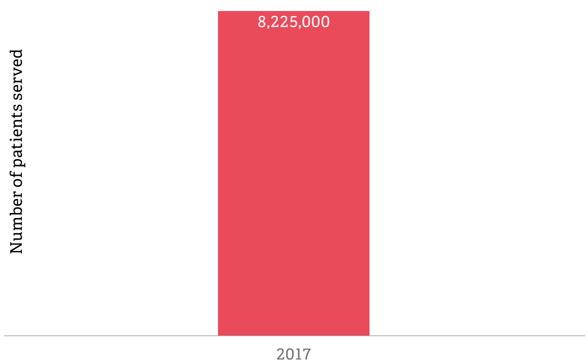
Sector impact: financial services

Our investments in banks and non-bank financial institutions supported 216,000 direct jobs, 32 per cent of which are held by women, in 2017. The core impact of these companies is through providing access to finance for businesses and individuals (Global Goal 8). The loans and advances made by our financial sector investments stood at $115.4 billion in 2017. This was down on 2016 due to our exit from a major India financial institution (see chart). The number of customers served by the financial institutions in our portfolio surpassed 47 million in 2017.



Sector impact: infrastructure

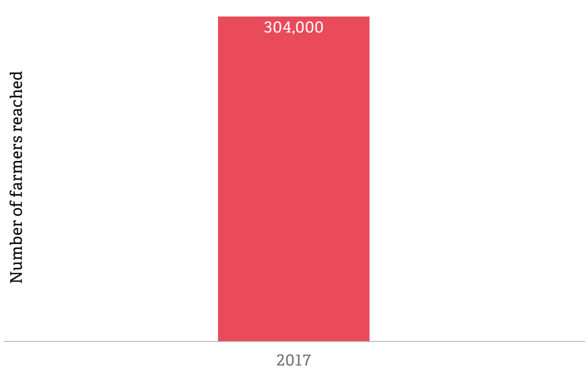
Our infrastructure platforms and investments provide jobs for 29,000 workers. However, the greatest impact of these investments is on households and productivity in industry and commerce. In 2017, our electricity investments generated and distributed over 46,311 gigawatt hours (GWh) of electricity. This is down on 2016 due to an exit in early 2017 from one of India's leading private power producers (see chart). Of the total power generated and distributed by our investments, 31 per cent was from renewable sources such as solar, wind and hydro.



Sector impact: health

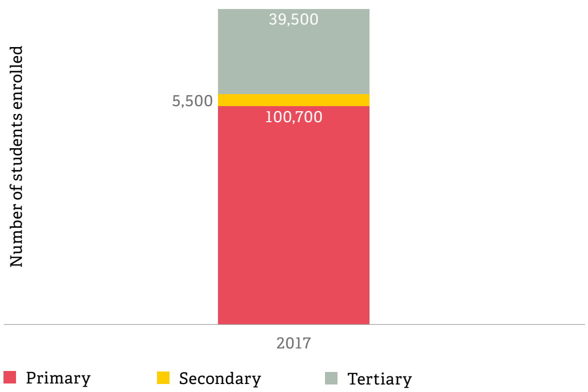
In 2017, our healthcare investments supported 61,000 jobs (51 per cent held by women) and provided training to 3,085 staff. An additional major impact is the provision of good health and well-being for patients (Global Goal 3).

Healthcare operators in our portfolio treated over 8.2 million patients in 2017 (a combination of inpatient and outpatient consultation numbers). This is the first year we have reported on patient numbers across our healthcare portfolio, which ranges from major tertiary hospitals to small nursing homes.



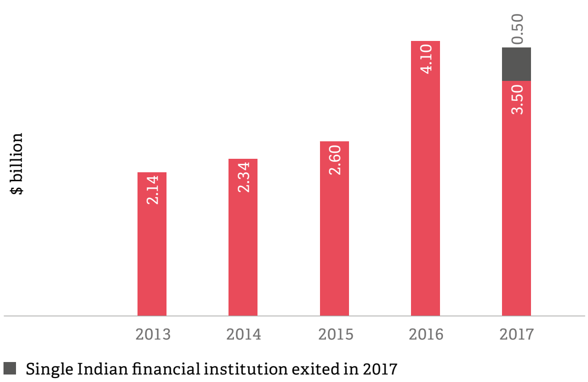
Sector impact: food and agriculture

While our food and agriculture investments provide 49,000 direct jobs, this sector is significant in African and South Asian economies for its impact across the entire value chain, from sustainable sourcing from smallholders, to providing nutrition for consumers (Global Goals 2, 15). The agribusiness investments in our portfolio sourced from 304,000 farmers in 2017.



Sector impact: education

Our education investments support 43,000 teaching jobs, 51 per cent of them held by women. They also achieve impact by providing quality education (Global Goal 4) both directly to students and by improving workforce skills. The education providers in our portfolio supported over 140,000 learners in 2017. Of these, more than 100,000 were enrolled at primary level, 5,500 at secondary, and 39,500 at tertiary.



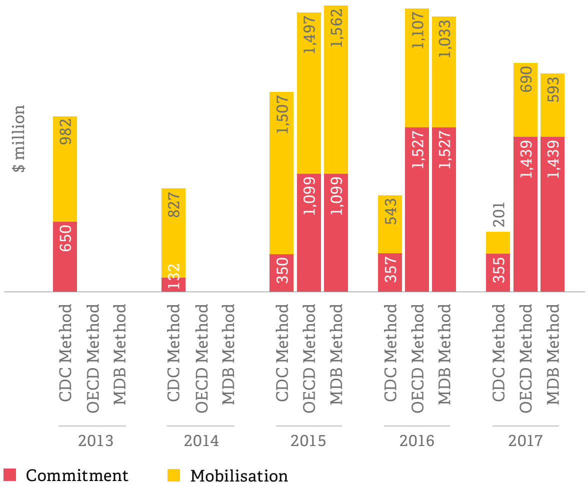
Local economy impact: taxes paid

An economy-wide indicator of impact is the tax payments made by firms to the national exchequer. Corporation tax is an important contributor of domestic financing for the Global Goals, making up 28 per cent of total government tax revenue in India[5], and an average of 14 per cent for 21 African countries[6].

In 2017, the businesses in our portfolio reported tax payments of $3.5 billion, primarily in corporate taxes. This figure was down $600 million on the amount reported in 2016, primarily due to our exit from a major Indian business. A quarter (26 per cent) of our investee businesses had no taxes to pay in 2017 because they had no income or made a loss in the year.

5 https://www.indiabudget.gov.in/ub2017-18/rec/tr.pdf
6 https://www.ataftax.org/en/products-services/african-tax-outlook

Impact on capital markets



Private sector capital mobilised

Labour-intensive sectors and countries with difficult operating environments are less attractive to private sector investors. When we invest we can bring confidence to these investors and mobilise private capital alongside our investment.

In 2017, we mobilised $41–48 for every $100 of our own commitments, depending on the method used. This means that the total capital mobilised alongside our own investments in 2017 was $593–690 million. There are two methodologies under development to calculate mobilisation, one led by the OECD[7] and the other a consortium of multilateral development banks[8]. We are reporting for the first time against both methodologies, alongside our own well-established methodology used for the past ten years.

The amount mobilised in 2017 is down on 2015 and 2016. Contributory factors include: reduced foreign direct investment flows in 2017,[9] particularly in Africa[10], and a stronger focus on backing funds in countries such as Afghanistan, where we are less likely to mobilise capital. We are working on a new mobilisation strategy to drive more capital into Africa and South Asia to help meet the Global Goals.

7 http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/mobilisation.htm
8 http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-PUBLIC-PrivInvestMob-Ref-Guide-Aug-14-2017.pdf
9 http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1659&Sitemap_x0020_Taxonomy=UNCTAD%20Home;
10 http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=461

OUR 70TH ANNIVERSARY

Imagine. Build. Change.

1949

One of our early investments was to establish Zambia's first cement works: Chilanga Cement. It was the first company to be listed on the Lusaka Stock Exchange, and provided most of the cement used to build the Kariba Dam, another of our early investments.

In the same year we invested in Tanganyika Wattle Estates. The company established a high-altitude hybrid maize and went on to become Tanzania's national seed company.

1952

In Bechuanaland (Botswana), we started the Molopo Ranch, which became one of the largest cattle ranches in southern Africa. Molopo provided the foundation for the meat industry, which is one of Botswana's most important export sectors, second only to diamonds.

1948

CDC was established as the Colonial Development Corporation by the Overseas Resources Development Act, 1948 with the mission to 'do good without losing money'.

1971–72

A loan to Merpati Airlines in Indonesia was CDC's first investment outside the Commonwealth.

We founded the Mananga Agricultural Management Centre in Swaziland to run residential courses. These would help local agricultural managers become much-needed general managers.

1964

We helped establish Kenya's tea industry through our investment in the Kenya Tea Development Authority. It became the world's third largest exporter of tea, and supports eight million people.

In the same year, the Housing Finance Company of Kenya was set up by CDC and the Kenyan Government. We also established the Development Finance Company of Uganda.

1987

We made our first investments in India and Pakistan. By the late 1990s we had become an early backer of India's tech industry.

1992

The Ghana Venture Capital Fund was established, the first CDC-sponsored investment fund to mobilise third party investors.

1998

We invested in Celtel, an early African mobile phone company, at a stage when commercial investors considered the African market unimportant. When we sold our stake, Celtel had eight million customers in 13 different African countries.

2012

Our mandate was revised, granting us the ability to invest directly once more.

2004

We were reconfigured to operate mainly as a fund investor. By the end of 2007 we were working with 42 fund managers across 100 funds.

2018

Our vision is ambitious – to become the most developmental of the world's DFIs. We will tackle market failures that hold back development, such as access to medicines; boost power transmission and distribution; support women's economic empowerment; and find new ways to mobilise even more capital to meet the needs of developing countries.

In 2018 we are marking 70 years of investing for development. We are the world's first development institution. We've been at the forefront of supporting the companies that help poor countries grow.

Imagine.

For 70 years, we've been thinking big to make the world a better place.

We encourage the use of innovative technologies to solve all sorts of challenges. And we have the vision to support businesses with potential through tough times so they can succeed in the long term.

Build.

Vision is just the beginning. We build on it by working with partners to build businesses that last.

This can mean creating new markets, developing the infrastructure to help economies thrive, and even kickstarting new industries.

Change.

Over the years our work has had a significant impact.

We have supported businesses that have created jobs and livelihoods for millions of people. And backed sectors that have changed economies and people's lives for the better.

What does the next decade hold?

I believe that the founders of CDC would feel proud of their legacy and what has been achieved in the 70 years since they made their first investments to help some of the world's poorest nations grow. They would be proud of the work and determination of so many people and the difference it has made on the ground, where it matters. And they would be proud that the UK has played a leadership role in the global development agenda.

But I expect they would also ask whether we have, globally, come far enough over the last seven decades to ensure that prosperity and opportunity is brought to everyone.

They would take comfort from the fact that the lives of most people in the poorer countries have improved since 1948. Fewer people are hungry, more people have jobs, mortality rates have declined, life expectancy has increased, and many more children – especially girls – are receiving, and completing, an education. They would certainly be proud that CDC, through so many different investments, has made real and tangible differences to people in some of the world's most deprived areas. And I believe they would feel, as I do, that economic development, led by the private sector, has been responsible for a large part of these changes and has helped to pull two billion people out of poverty in the last 30 years alone.

But they would also point out that there is still so much more to do. The statistics show that we must rise to a growing challenge. Over the last five years, Africa has had the highest population growth of any region in the world. By 2050 a quarter of the world's population will live on the continent and the majority will be young people. That's a challenge not only in terms of creating employment, but in meeting education, health and other needs, too.

This is why CDC is as important and relevant now as it was 70 years ago.

I also believe our founders would be envious of the opportunities we have at our disposal today. Technology and innovation is bringing the world and ideas closer together. A journey to Malawi from London 70 years ago would take six weeks. Today that journey can be completed in just 12 hours. Even more impressively, better connectivity means we can communicate in an instant.

Furthermore, we are located in the world's largest international financial centre at a time when more and more people are asking how their investments can play a bigger role in funding economic growth in the world's poorest countries. They know that the challenge of achieving the Global Goals can only be met through mobilising investment and supporting private sector solutions. We will use our experience to encourage more individuals and institutions to invest in our markets.

With the support of DFID, we can think long term, provide patient capital and take risks that others would be unwilling or unable to do. This allows us for example to support off-grid solar to reach some of the 600 million people in sub-Saharan Africa who still live without access to electricity, to put funding mechanisms in place to bring down the price of medicines, and to provide capital to the only private equity fund in Afghanistan.

Our commitment is to keep the development agenda front and centre in everything we do, and remain focused on harnessing the best talent and the best ideas to deliver results for the world's poorest people.

Nick O'Donohoe
CEO

Glossary of terms

DFI	Development finance institution
DFID	Department for International Development
GDP	Gross domestic product
Global Goals	The set of sustainable development goals that UN member states aim to achieve by 2030
GW	Gigawatt
GWh	Gigawatt hours
IFC	International Finance Corporation
IPO	Initial public offering
MW	Megawatt
NGO	Non-governmental organisation
MSME	Micro, small and medium-sized enterprise
SME	Small and medium-sized enterprise
$	All $/dollars are US dollars unless otherwise stated

Data disclaimer
Data on employment, taxes paid, mobilisation and sector metrics has been through CDC's internal data quality procedure, and we have used reasonable efforts to ensure the accuracy of all data used in this report. However, this data has not been audited or independently verified. Data has been received from many, but not all, of CDC's investee businesses. We have received this data from our investment partners, including the fund managers that have invested our capital (and the capital of others) in these businesses. Data may be from different points in time but was requested to relate as closely as possible to year end 2017. Employment data may sometimes include contract workers and other non-permanent workers. This data should be read as being indicative of magnitude rather than as exact amounts of taxes paid.

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

Photographers whose work is used in this publication include: Allison Joyce, Samuel Ochai, Harrison Thane and Asim Hafeez (all for Communication for Development Ltd).

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