CDC Investment works

British International Investment

Investing to transform lives: five years on

Introduction

We are the UK Government's development finance institution with a mission to help solve the biggest global development challenges by investing patient, flexible capital to support private-sector growth and innovation. We are a champion of the UN's Sustainable Development Goals – the global blueprint for achieving a better and more sustainable future for us all. We're also a proud part of the UK's offer to support developing and emerging countries' long-term economic transformation.

Inside this report

Five years ago, we set out a vision for how we could contribute to tackling the key development challenges facing Africa and South Asia, building on the focus we began in 2012, when we narrowed the regions where we invest and took on more risk. This report celebrates the achievements and lessons of the last five years, and looks at the areas we'll be building on over our next five-year strategy, which begins in 2022.

As we enter a new strategy period, we will be changing our name to British International Investment. The new name signifies the increased breadth of what the organisation already does and highlights our role at the heart of the UK Government's international financing offer.

Over five years, our investments made a positive difference to people's lives by:

Committing almost

£7bn

to more than 600 impact-led investments

Mobilising around

£2.5bn

of additional capital from private-sector investors alongside our own commitments

Supporting businesses that employ almost

1m

workers

Generating

277,000

gigawatt hours of electricity, enough to power South Africa for over a year

Paying more than

£10bn

in taxes

Contents

Chairman and CEO's introduction

Sir Graham Wrigley
Chairman

Nick O'Donohoe
Chief Executive Officer

In 2017, we set out our vision for how CDC, acting even more boldly than before, could help accelerate progress on the key development challenges facing Africa and South Asia. These were: the enormous need for jobs, driven by a rising youth population; the need to include women in securing a more prosperous and fair future; and, of course, the need to accelerate climate action in the wake of the momentous Paris Agreement in 2016.

We knew that the path ahead was difficult, but our experience over the previous five years had shown us it was full of opportunity. We had been fortunate to collaborate with some exceptional individuals and ambitious businesses across Africa and South Asia. We knew that when capital, expertise and inspiration are brought together, communities can reap exceptional benefits.

At the same time, we knew that progress could take time, and wasn't always linear. That has come to pass – in ways we expected, and in ways we did not. This report celebrates the achievements and lessons of the last five years, and therefore the areas we'll be building on over our next five-year strategy. But first, we must also acknowledge the magnitude of the context we find ourselves in, just five years on. A global pandemic has triggered the worst global recession in decades. An additional two per cent of the global population has been pushed into extreme poverty, with development gains set back at least seven years. Poorer nations have vaccination rates of less than 2 per cent, hampering their ability to recover. Beyond the pandemic, the Intergovernmental Panel on Climate Change (IPCC) has recently sounded the alarm that we need to accelerate climate action to keep temperature change within 1.5°C by 2030. At the same time, 800 million people globally lack access to electricity. And some countries for which we had great hopes of political and economic progress have faltered, threatening the prosperity and security of their people.

Our 2017 strategy has stood us in good stead, and we've grown the organisation to deliver that strategy.

There have been significant changes at CDC over the last five years – in the scale of our financial commitments and capabilities as an organisation.

Since 2017, we've committed almost £7 billion ($9 billion) in long-term, impactful investments in some of the hardest places to invest in the world. In doing so, we've become an institution that commits on average around £1.5 billion a year and manages around £7.5 billion ($10 billion) in assets today, compared with around £5 billion (almost $7 billion) at the start of the strategy period.

Our investment mandate is challenging, so we've had to build our capabilities to achieve this scale. We've grown from a team of around 220 people in 2017 to around 500 in 2021, all of whom are committed to achieving the best possible development impact.

Over this time, we've been a proud part of the UK Government's offer to support developing and emerging economies. That includes working closely with the UK Government in the countries where we invest and building partnerships with British businesses that operate in these countries. We will build on this work in the next strategy period.

Our additional capabilities have allowed us to deliver in several areas.

We've become more focused on impact than ever before.

This includes building our team of over 70 impact professionals, who are now a key part of our investment selection and management process. With this enhanced expertise, we ensure that impact is built into every investment decision, shifting our focus to the sectors where we can have the greatest development impact, and adopting key standards and principles for impact.

This greater emphasis is leading to real change: our Investment Committees are interrogating the impact of each potential investment, we're making different investment decisions than we did before, and we're better at managing impact once we've invested. This greater impact focus has also seen us lead the way on gender-smart investing and develop an ambitious approach to tackling climate change, committing to align our investments with the Paris Agreement and achieve a net-zero portfolio by 2050.

We've sharpened our regional focus on Africa and South Asia.

This has meant having a greater staff presence in both regions, from three countries in Africa and South Asia in 2017 to an additional eight countries today. This presence has been key to building networks and supporting our investee companies. Within those regions it's meant further changes too – for example, in South Asia we've moved from an India-focused portfolio to one that incorporates countries including Pakistan, Bangladesh, Nepal and Myanmar. Our investments in these countries range from renewable energy businesses to a leading microfinance institution enabling more than a million low-income families to improve their standard of living. They also include an internet service provider, connecting hundreds of thousands of households and small businesses to the internet. In addition, these investments have allowed us to refine our thinking on, and approach to, achieving impact in fragile and conflict-affected states.

We've embraced our goal to become more innovative.

This has meant expanding the pioneering work of our Catalyst Strategies, which we announced in 2017. These strategies allow us to take an even more flexible approach to risk in pursuit of impact, and have led to market-shaping investments. Through them, we've built new companies – such as MedAccess, which provides innovative social finance to secure life-changing medical supplies for people in Africa and Asia, and Gridworks, which is addressing the under-investment in electricity transmission, distribution and off-grid infrastructure in Africa.

Being more innovative has also involved introducing new tools to our toolkit. These include CDC Plus, which provides technical assistance, and a significant expansion in our trade finance and supply chain finance programme. As we become more innovative, we're also more open-minded about changing our approach. For example, investing in technology wasn't identified as a priority in 2017, but we now firmly believe it has a strong role to play in finding sustainable and inclusive solutions to reach the Sustainable Development Goals (SDGs). This ranges from improving access to affordable, good-quality internet that is central to development, to providing solutions that have the potential to make a difference to both people and planet. So, alongside large investments in companies such as Liquid Telecom to build broadband infrastructure across Africa, we've also recently introduced a venture capital programme to support exciting, young companies that have the potential to provide fresh perspectives in meeting old challenges. These include companies like Loadshare, an Indian logistics business that uses technology to bring together small and medium logistics companies, enabling better market access, which boosts their growth and creates jobs.

Of course, given the challenging nature of what we do, not everything has gone to plan. The reality is that, from time to time, some of our investments will fail. All investors face this risk, and for us, as an institution investing in some of the most challenging environments, the risk is higher. That's the nature of the development finance business. Each failure is disappointing and unwelcome, but they are expected, learnt from and acceptable within our risk profile, as long as we remain on track to achieve the portfolio-level commitments on long-term financial returns we've made to our shareholder.

Finally, we've learnt from our experiences.

When the Independent Commission for Aid Impact (ICAI) first reported on us in 2019, one of its conclusions was that we needed to do more to learn from our investments and to share these lessons. They were right. We're pleased with how we've taken on board that feedback and scrutiny, and we were delighted when ICAI's recent report pointed to CDC as an example of "a positive learning journey" that brought about "strong results" and "impressive improvements".

As we move to a new strategy period in 2022, it's this culture of learning we intend to build on. We continue to have many of the same objectives we had ten years ago, but we now have the benefit of greater experience of what works and what doesn't.

We are incredibly proud of our achievements since 2017, and we know there is still much more to do. Our mission to help solve the biggest global development challenges by investing patient, flexible capital is an ambitious one – and the markets in which we invest need our support now more than ever. To be successful, it's important we don't stand still. As we embark on our next strategy, we will continue to uphold our long-term values and goals, while refining our approach to find the best ways to support the businesses and countries where we invest.

SIR GRAHAM WRIGLEY
CHAIRMAN

NICK O'DONOHOE
CHIEF EXECUTIVE OFFICER

What we set out to do in 2017

In 2017, we published our strategic framework, setting out how we intended to transform economies, businesses and lives in Africa and South Asia over the following five years.

Our strategy was underpinned by four priorities:

Developmental

We will embed development throughout CDC to maximise our impact.

- Invest only in Africa and South Asia, where the world's poorest people live (see page 14)
- Prioritise investing in poorer and more fragile countries (see page 15), and the sectors that create the most jobs (see page 9)
- Develop a world-class framework to maximise our impact. We will integrate this with our investment process and deepen our development expertise (see page 8)
- Mobilise private capital alongside our investments, and find new ways to partner with investors to increase our own impact (see page 1)
- Achieve a broad range of impacts in addition to our main aim of creating jobs (see page 8)
- Support the UN Global Goals, including women's economic empowerment (see page 11) and climate change (see page 12)
- Undertake more evaluations to enhance our understanding of the best ways to support long-term positive change in our markets (see page 8)

Responsible

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

- Set high environmental, social and business integrity standards and provide practical assistance to businesses and investment fund managers (see page 10)
- Always ensure our capital or expertise supplements what private investors will provide (see page 8)
- Increase our transparency and strengthen our approach to tax practice amongst development finance institutions (see page 20)

Innovative

We will address key development challenges in new ways.

- Invest to transform whole sectors (see page 9)
- Invest in new business models and nascent or failed markets (see page 17)
- Take calculated risks to unlock impact we could not otherwise achieve (see page 17)

Enduring

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

- Build our team of outstanding professionals, who are dedicated to achieving development impact through their commercial judgement (see page 20)
- Expand our local presence by opening country offices (see page 14)
- Manage and mitigate risks, recognising they are inherent in our mission, through continuous improvement of our risk policies and procedures (see page 20)
- Generate a financial return, which we can reinvest to help other businesses grow and generate further impact (see page 20)

The last five years in numbers

We are an investor with two objectives: to support the business growth and economic stability that enables countries to leave poverty behind, and to make a financial return, which we reinvest to improve the lives of millions of people in Africa and South Asia.

CDC

Provides capital support

Almost £7bn
Capital committed by CDC since 2017

Around £2.5bn
Additional capital mobilised from private-sector investors alongside our own commitments

To grow businesses in Africa and South Asia

Over 600
Number of new businesses we've invested in

1,200
Total number of businesses we invest in

These businesses create jobs...

In the last five years
215,000
workers have been hired by firms we invest in, now employing almost
1m
people in total and supporting
2.6m
more people in their supply chains

Provide essential goods and services...

44.6m
Patients treated (total 2017–2020)

7.5m
Farmers sourced from (total 2017–2020)

336.7m
Customers reached by investments in financial institutions (total 2017–2020)

277,000 GWh
Power generated (total 2016–2020)

Pay local taxes...

Over £10bn
Taxes paid by portfolio companies (total 2016–2020)

And make a return for CDC

6.2%
Average annual rate of return in £ (2012-2021)
See page 20 for more information

These returns are recycled in new investments

£7.5bn
Estimated total assets in 2021 (£5bn in 2017)

Timeline of key events

KEY
- CDC events
- *World events*

2017

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.

JUNE
Nick O'Donohoe becomes CEO of CDC.

JULY
Our new five-year strategy is launched.

NOVEMBER
We establish MedAccess, an innovative social finance company, as one of our new market-shaping strategies.

2018

JANUARY
We formally launch Ayana Renewable Power, a new independent renewable energy company in India. As well as seeking to develop hundreds of megawatts of new power, Ayana has a strong community training programme to facilitate a just transition to decarbonisation.

MAY
We mark 70 years of investing for development. Established in 1948, we were the world's first development finance institution (DFI).

JUNE
We launch our gender strategy and alongside our DFI peers at the G7 summit in Canada we commit to the 2X Challenge, an initiative to mobilise $3 billion of investment by 2020 in projects that support the world's women.

JULY
We establish our new technical assistance facility, CDC Plus.

AUGUST
UK Prime Minister Theresa May leads a trip to Africa, visiting South Africa, Nigeria and Kenya. During the trip, our CEO Nick O'Donohoe announces our intention to commit £3.5 billion to the continent over the next four years.

NOVEMBER
We announce plans to open a regional office in Nigeria.

DECEMBER
Liz Lloyd is CDC's first Chief Impact Officer.

KEY
- CDC events
- *World events*

2019

FEBRUARY
We make our first-ever investment in Nepal with a loan to NMB Bank.

JUNE
We launch a new company, Gridworks, to invest in electricity networks across Africa.

JULY
We sign up to the Task Force on Climate-related Financial Disclosures, the main international framework for integrating climate change into the management systems of financial institutions and businesses.

Boris Johnson becomes the UK's Prime Minister.

OCTOBER
We establish a permanent presence in Bangladesh.

NOVEMBER
We announce new heads of office in Nairobi and Lagos.

2020

JANUARY
UK Prime Minister Boris Johnson hosts the UK-Africa Investment Summit to build partnerships and deliver more investment, jobs and growth across Africa. For its part, CDC unveils $400 million of new agreements to support entrepreneurs and SMEs.

MARCH
The World Health Organization declares COVID-19 a pandemic.

We concentrate our response to COVID-19 on three areas: 'preserve', 'strengthen' and 'rebuild'.

JULY
We unveil our commitment to become aligned to the Paris Agreement, as part of our new Climate Change Strategy.

AUGUST
We establish a permanent presence in Egypt.

SEPTEMBER
The UK Government's Department for International Development (DFID) and the Foreign and Commonwealth Office (FCO) merge to become a new international department: the Foreign, Commonwealth and Development Office (FCDO).

2021

JANUARY
Kathryn Matthews joins the Board of CDC as non-executive director, establishing a 50:50 gender balance on the Board.

JUNE
The 2X Challenge sets an ambitious new $15 billion fundraising goal after securing more than double its original $3 billion target.

The UK hosts the G7 Summit in Cornwall. During the Summit, the DFIs and multilateral partners announce plans to invest over $80 billion into African businesses over the next five years.

AUGUST
The UN's IPCC releases its sixth assessment report, warning that global temperatures are likely to rise by more than 1.5°C over the next 20 years unless decisive action is taken.

OCTOBER
The PRI, a UN-supported network of investors, awards CDC the 'Real-world impact initiative of the year' for our COVID-19 response.

We announce our partnership with DP World to chart a stronger course for African trade around the world.

NOVEMBER
The UK hosts the COP26 climate change conference in Glasgow. CDC announces plans to invest over £3 billion to support emerging economies in Africa and Asia to combat the climate emergency.

More focused on impact than ever before

The last five years have seen us take huge strides to broaden and deepen our focus on impact; we've significantly improved how we monitor, measure and learn from the impact of our investments. From developing a world-class framework to maximise our impact, to growing our team of impact professionals, we're ensuring impact lies at the heart of every investment we make.

In this section:

A sharpened focus on Africa and South Asia_

More focused on impact than ever before continued

1 We're using the new CDC Impact Framework to manage for impact

The Framework helps us better understand factors such as who benefits from our investments, how they benefit and how our investment will lead to impact. It's providing us with an overarching approach to first assess the investments we want to make and then, once we've made an investment, actively manage our impact. It helps us focus on what we aim to achieve, take consistent decisions across the portfolio, identify when we are off track (so we can do something about it) and learn from our experience.

2 We've embedded impact at the centre of every investment decision

Our impact approach is now visible in every single investment we make. That's because, for each investment, we've also introduced an 'Impact Dashboard', which describes the expected impact of the investment against the Impact Framework and links the impact of the investment to the SDGs. Our Investment Committee considers these dashboards as part of every investment decision, as they help us interrogate the impact of each potential investment. You can see an outline of our Impact Dashboard below.

Impact Dashboard

The dashboards help us to assess the impact of each investment in the following ways:

What?

The type of impact the investment is contributing to, linked to the SDGs.

How?

The process through which our investment into a company or fund contributes to impact.

Who?

Which stakeholders are reached and their circumstances prior to the investment.

How much?

How many stakeholders experience the outcome, what degree of change they experience, and how long they experience the outcome for.

Risk

The likelihood that impact will be different than expected.

Contribution

Whether our efforts are likely to result in outcomes that are better than what would have occurred otherwise. For example, providing capital not available from commercial investors, or supporting a company's efforts on women's economic empowerment or resource efficiency.

3 We've aligned with market-leading approaches to impact

Our efforts to ensure we consider impact right across the investment process align with the Operating Principles for Impact Management, which were launched in 2019 as a reference point against which impact-management systems can be assessed. We're proud to have been part of the advisory group that worked to establish the Principles and to be one of the first adopters. An independent verification of our approach judged CDC to have 'advanced' alignment to the majority of the Principles.

Our new CDC Impact Framework aligns with industry-leading standards by adopting the approach of the Impact Management Project, which is the industry forum for building global consensus on measuring, managing and reporting impacts on sustainability.

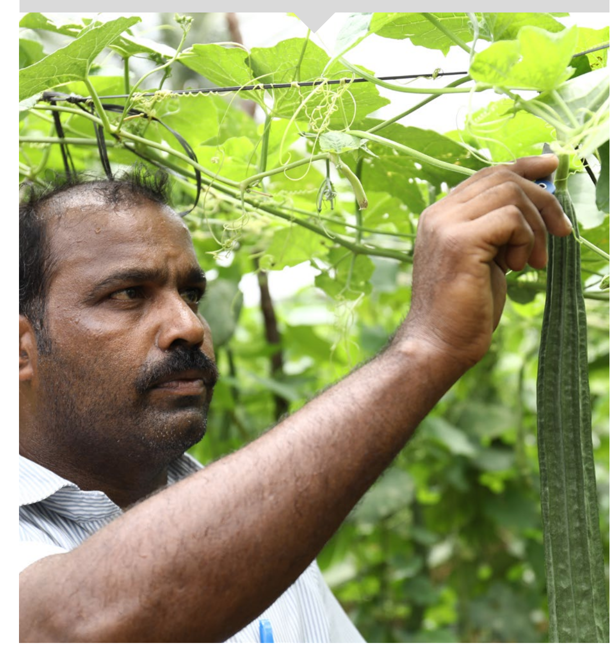
An independent verification judged CDC to have 'advanced' alignment to the majority of the Operating Principles for Impact Management.

Recognition for our progress on impact

We've worked hard to support the Independent Commission for Aid Impact (ICAI) over the last three years as, among other areas of focus, it's reviewed our approach to impact, and we've benefitted from its constructive feedback. We were pleased that ICAI's review in 2021 concluded it is content with the progress we've made.

« CDC's investment decisions now address development impact throughout the investment cycle, and consideration of impact is driving active management of investments. »

ICAI 2021



More focused on impact than ever before
continued

4 We've increased our impact team to 70 people

We now have a team of more than 70 impact professionals, working dynamically with our investment teams to maximise impact in every investment. This is a significant increase from 19 at the end of 2016. With a team that's bigger and more integrated than that of any investor of our kind, we're confident our approach will make a major difference.

We've grown from fewer than 20 to

70+

impact professionals over the last five years

5 We've appointed our first Chief Impact Officer

In 2018, we appointed our first Chief Impact Officer to ensure that impact is at the heart of everything we do. This role has been critical as we've increased our investment activity to achieve a broader range of impact in the markets where we invest.

6 We're investing to transform sectors

Since 2017, we've directed our investment towards seven sectors which have the strongest potential to create the most jobs for the capital invested, and which contribute towards many of the SDGs. This has meant developing sector strategies to help us maximise our impact in each sector by identifying key development needs and targeting investments in businesses that will meet those needs. It's also meant developing impact frameworks for each of these sectors, which we've tested with rigorous evidence reviews.

Together, these strategies and impact frameworks have broadened our understanding of the impact we should seek and how to drive that impact. They have also given us greater confidence about which investments can have the most impact.

We reinforced our strategic approach to sectors through a complete reorganisation of our investment teams in 2020. We moved from a structure based on investment products to one based around industry sectors. This has enabled us to improve how we capture insights across countries and regions. We are using what we've learnt to provide more innovative financial solutions and increase impact in all our investments.

7 We've put learning at the heart of how we make decisions

The learning programme we've put in place has helped us better understand important themes in our work, guide our future investment strategies and contribute to the wider understanding of the development finance community.

Alongside the FCDO, we've commissioned independent multi-year sector studies that look at how to create impact in our priority sectors. For example, an independent evaluation of our financial institutions portfolio is helping inform future strategy development and investment decisions.

Our Insight programme – a series of practical and digestible lessons on the issues of private-sector investment and development – is helping us and the companies we work with better understand and enhance our impact, as well as share what we learn. Over the last five years, we've published over 20 Insight reports, deepening our understanding of topics such as the impact of solar home systems in Nigeria (see adjacent case study), the impact of investing in manufacturing and the impact of access to affordable, good-quality internet. In one case, we've collected baseline data from an investment to help us measure the impact of quality internet provision on households, businesses, and people's lives (see case study on page 10).

Find all our reports at cdcgroup.com/insight

We've published over

20

Insight reports

Powering millions of homes with clean energy through solar home systems

Roughly 600 million people in Africa lack access to electricity. Off-grid energy solutions, such as solar home systems and mini-grids, are the most efficient way to provide renewable and reliable energy to over half these people.

We've invested in the off-grid sector to complement our grid-scale renewable energy investments, and we're currently invested in eight of the top ten pay-as-you-go solar companies in Africa. One of these is Greenlight Planet, which we invested in during 2020. It provides solar home systems on a pay-as-you-go basis to 11.2 million people across Kenya, Tanzania, Uganda and Nigeria, where 80 per cent are rural customers. As well as providing increased access to energy, the company is helping protect the environment – it's estimated to have avoided over 865,000 tonnes of carbon dioxide emissions in 2020. There are also significant health benefits for rural households, which would otherwise rely on kerosene or wood as fuel.

In Nigeria, Lumos is another solar company having an impact through its off-grid solar systems. It has already sold more than 100,000 of its solar home systems to Nigerian homes, and plans to increase this tenfold. It's also reaching those on low incomes, who make up 51 per cent of its customers, and in 2020 we published an Insight study exploring Lumos' impact on its customers. Studies like this help us to better understand the customers our investee companies reach, and so help shape our future investments.

11.2million

People receiving access to energy through Greenlight Planet's pay-as-you-go solar home systems

More focused on impact than ever before
continued

8 We're using our expertise to provide market-leading training and guidance

We've cemented our position as leaders within the Environmental, Social and Governance (ESG) space. We're sharing and encouraging good practice across the private sector by running capacity-building training programmes for investors and companies, and developing a range of good-practice guidance and online products – including our ESG Toolkit, a free archive of resources.

Our workshop programme – which we provide at no cost to businesses in our portfolio – has become one of the largest of its kind in emerging markets. We've provided support to more than 1,000 professionals from over 195 organisations, and reached a significant proportion of the private equity industry in the areas where we invest, particularly in Africa.

Our ESG workshops have supported

1,000+

professionals from over 195 organisations

We've published almost

20

guidance reports

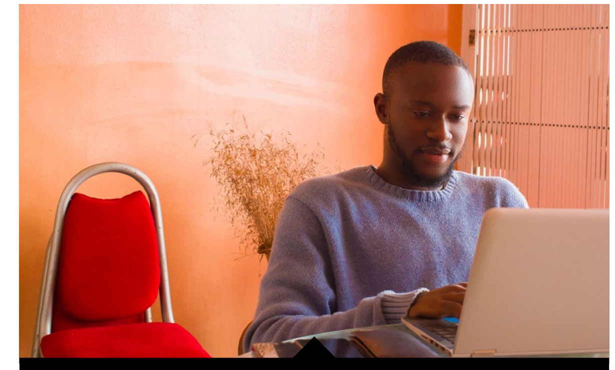
9 We've become a leader in gender-smart investing

We've used our role to increase the impact of investment on women's economic empowerment, so we can contribute more effectively to SDG 5 on gender equality. This includes being a co-founder of the 2X Challenge, an initiative set up by G7 DFIs in 2018 to support the economic empowerment of women through gender-smart investing. To date, the initiative has encouraged $7 billion in such investments (see page on 'Investing in women'). We've also helped to establish the 2X Collaborative, a new industry body set up to promote investment in women.

10 We're aligning our investments with the Paris Agreement

We've committed more than £700 million of climate finance over the last four years, and our Climate Change Strategy, published in 2020, builds on our achievements to date. These include aligning our investments with the Paris Agreement and introducing our first climate finance target, under which 30 per cent of new commitments made in 2021 will be in climate finance.

Our strategy aligns our investments with the Paris Agreement by investing for a net-zero world by 2050. It supports a 'just transition' to net-zero by keeping the creation of decent jobs and skills development at the forefront of the change, and it aims to strengthen the adaptation and resilience of sectors, communities, businesses and people to the effects of climate change (see page on 'Investing in clean and inclusive growth').



Connecting communities with digital infrastructure

Improving access to affordable, good-quality internet is central to development. It strengthens the growth of businesses and local economies, and is a key part of SDG 9. Developing the infrastructure needed for the internet, such as fibre networks, is essential to improving internet access. This is how Liquid Telecom, the largest independent fibre and cloud provider in Africa, is bringing broadband to some of the most isolated and unconnected places across the continent.

Our investment in 2019 helped accelerate the firm's ambition to connect Cape Town to Cairo by fibre network, and to expand infrastructure into Central and West Africa. This included places that lack affordable and reliable broadband, such as the Democratic Republic of the Congo. In 2020, we made an additional investment into the company to support its plan to expand its pan-African data centre business, with the aim of boosting economic activity by reducing costs and offering affordable data storage for companies.

To deepen our understanding of who benefits from connectivity investments and how they benefit, we've embarked on a project with Liquid Telecom in the Democratic Republic of the Congo. In particular, this will help us understand the impact of operationalising a currently dormant fibre network. Before the project began, we collected baseline data, enabling us to measure the impact on households, businesses and people's lives after they've received access to quality internet. This understanding will inform our future connectivity investments, helping us make investments that maximise our impact.

We're now a leader in gender-smart investing

As a champion of gender-smart investing, we're using our role to increase the impact of investment on women's economic empowerment.

In 2017, we recognised our role in contributing to SDG 5 on gender equality, and decided to look for ways to create economic opportunities for women.

Since then, we've been a co-founder of the 2X Challenge, an initiative set up by G7 DFIs in 2018 to support the economic empowerment of women through gender-smart investing. The 2X Challenge has encouraged $7 billion in such investments and increased its membership from seven to 18 DFIs and MDBs. In June 2021, the initiative committed to raising $15 billion over the next two years to help women in developing markets access jobs and build resilient businesses. We have also led the launch of the 2X Collaborative, a new global industry body to promote gender-lens investing.

We've invested more than

£500 million

that meet the 2X Challenge standard

#1

In 2020 we were ranked the top bilateral DFI for gender equity by CGDev

We've also worked with our 2X partners to lead the development of the 2X framework – the set of criteria and indicators that together define what makes a company, bank or investment firm 'gender-smart'. In addition, we've produced resources to encourage other investors to become gender-smart. These include our Gender Toolkit and Gender-smart Investing Guide for Fund Managers.

For our part, since the initiative began, we've made investments of over £500 million that meet the 2X Challenge standard.

Throughout the investment process, our teams consider gender-based factors to inform our decisions and ensure we allocate capital to intentionally advance gender equality. Our gender finance team has trained other teams in CDC on how to incorporate gender-smart thinking into their work. It's now training other financial institutions and 'training trainers', so organisations can replicate and embed what they've learnt.

We're proud our efforts to close the gender gap were recognised in the Center for Global Development's (CGDev) 2020 development finance survey, where we were ranked the top bilateral DFI for gender equity.

Increasing diversity in the finance sector

The business case for a gender-diverse workforce is clear – it can lead to higher productivity, lower absenteeism, improved market access and higher retention rates. We work with many of the financial institutions we invest in, to help them strengthen gender equality.

For example, over the past two years, we've provided guidance and support to HBL, a bank in Pakistan, which has set ambitious targets to increase female employment. We've supported the bank in developing a plan to strengthen gender diversity at the firm – in particular by training 180 of its senior managers on the value of gender-smart banking. Between 2016 and 2020, HBL increased its proportion of female staff from 12 per cent to 18 per cent.

180

senior managers have been trained on gender-smart banking

Building a climate-resilient future for farmers

Climate resilience is particularly important in the food and agriculture sector, which is especially exposed to climate risks such as changes in temperature and rainfall, and unpredictable weather patterns.

One company taking a pioneering approach to improving smallholder farmers' resilience to climate change is CropIn, an India-based specialist in software for agribusiness.

CropIn uses technology such as satellite images, artificial intelligence and machine learning to monitor crop health remotely, generate weather analytics, make yield predictions, and then pass on these insights to farmers. Armed with the right information, farmers are better equipped to deal with the effects of climate change. Studies show that, on average, climate resilience increases for 92 per cent of farmers in the first year of using CropIn's technology.

92%

of farmers become more climate resilient in the first year of using CropIn's technology

We've committed more than £700 million of climate finance

Our Climate Change Strategy, published in 2020, builds on our achievements to date and aligns our investments with the Paris Agreement.

Investing for a net-zero world by 2050

We're ensuring our portfolio reaches net zero by 2050. To achieve this, we're reducing emissions across our investments, and investing in new technologies or business models that reduce emissions or remove carbon from the atmosphere. So far, that's included new investments ranging from companies providing solar home systems on a pay-as-you-go basis (see case study on page 9) to supporting local resource-efficiency businesses taking steps to combat climate change. We've also been supporting existing investees – for example, working with e-grocery and e-commerce logistics businesses as they move to electric delivery vehicles.

We've developed guidance and tools to assess Paris alignment at an individual investment level. This helps us determine whether future investments in our pipeline are 'aligned', 'misaligned' and therefore excluded, or 'conditionally aligned' with the goals of the Paris Agreement.

Ensuring no one is left behind in the transition to a green economy

We're focused on the economic opportunities for communities and individuals as countries make the transition to a green economy. That means we invest in businesses that provide the jobs of the future for the workers of today.

We're also addressing the negative effects of job losses in highly polluting sectors. For example, we're the founding member of the 'Just Transition Finance Roadmaps' project in South Africa and India. This aims to mobilise capital for shifting coal regions and communities from these unsustainable economic activities into new ones that create jobs and wider positive social and economic benefits.

Strengthening adaptation and resilience of sectors, businesses and communities

We're working to ensure our investments across all sectors are resilient to climate change. First, we're working with our portfolio companies to help identify risks and opportunities, and then to implement strategies for those businesses to adapt and be resilient to the changing climate. One example is a wind farm in Pakistan, where we're supporting a project to protect and nurture mangrove forests as a guard against tidal erosion (which is predicted to increase as sea levels rise) and increase prosperity for local communities.

Second, we're investing in businesses that provide adaptation and resilience solutions for sectors, businesses and communities. One example is an India-based specialist in software for agribusiness, which uses technology to monitor crop health and make yield predictions, and to pass these insights to farmers to help them deal with the effects of climate change (see case study on the opposite page).

A sharpened focus on Africa and South Asia

We're one of the leading impact investors in Africa and South Asia, with a 70-year track record of helping companies grow in challenging business environments.

Deepening our regional presence and expertise over the last five years has significantly extended the reach of our capital, strengthened our relationships with investee companies and fellow investors, and ultimately accelerated the pace and scale at which we can act.

We're also a proud part of the UK Government's international financing offer to support developing and emerging economies. Long-term economic transformation requires the strengths of all parts of government, and our regional teams work closely with the UK Government in the countries where we invest.

In this section:

An innovative approach to development finance_

A sharpened focus on Africa and South Asia
continued

Regional presence 2017–2021

Key
Our offices since 2017 · Our offices set up between 2017 and today

We're invested in
600+
businesses in Africa

We're invested in
400+
businesses in Asia

1 We've grown our regional presence

Over the last five years, we've significantly expanded our local presence to deepen our understanding and to remain close to the markets we invest in. We now have regional presence across 11 countries – up from three in 2017.

The expertise and insights of our regional teams are critical in guiding our origination efforts, portfolio management and stakeholder relationships, ultimately accelerating the pace and scale of what we can achieve. Our regional teams also work closely with the UK Government in Africa and South Asia to build local insight, share expertise and networks, as well as ensure that our partnerships create long-term benefits for the UK economy.

Between 2017 and 2021, the number of staff based in Africa and South Asia grew from 15 to almost

70

Charting a stronger course for African trade around the world

Africa makes up one sixth of the global population but only has one twentieth of the world's top 100 ports. Inadequate ports and trade bottlenecks are constraining economic growth in some of the world's fastest growing economies.

Better performing trade infrastructure allows businesses to expand and to create jobs. Our partnership with DP World, announced in October 2021, will help accelerate Africa's potential as a global trading powerhouse and improve the economic prospects of millions of people. We are committing approximately $320 million initially to modernise and expand three ports in Dakar, Sokhna and Berbera, with further ports and logistics investments across Africa to follow.

2 We've scaled up our investment in Africa

In Africa, we've established regional hubs in the north, south, east and west (see map). We've grown our team in South Africa, as well as setting up new offices in Kenya, Nigeria and Egypt.

This has enabled us to scale up investment across the continent. Since 2017, we've committed around £4 billion of investment in Africa. This includes partnering with Vodafone, a leading British company, to establish the Global Partnership for Ethiopia, the country's first private mobile operator. The company will provide approximately 24 million Ethiopians with access to inclusive digital services for the first time. Established by a consortium of Vodafone, Safaricom, Vodacom, Sumitomo and CDC, the company will reduce the price of connectivity for customers by up to 75 per cent by 2032.

Our regional presence has enabled us to respond to local needs throughout the pandemic (which you can see on page 19).

Since 2017, we've committed around

£4 billion

of investment in Africa

A sharpened focus on Africa and South Asia
continued

3 We've widened our regional focus in South Asia

In South Asia, we've widened the regional focus of our portfolio to countries including Pakistan, Bangladesh and Nepal.

In Pakistan, for example, we've made more than ten investments since 2017. This includes commitments to firms such as Zephyr Power, a renewable energy business we're helping to adapt to rising sea levels, and Kashf Foundation, a leading microfinance institution which has so far enabled more than a million low-income families across Pakistan to improve their standard of living.

Since 2017, almost

50%

of average annual investment disbursements in countries and Indian states with highest levels of investment difficulty

4 We're forging strong partnerships, including with British businesses

High quality partnerships are a key part of our approach to investing in Africa and Asia.

That includes investing in or alongside British businesses that operate in Asia and Africa and who share our aims. The expertise and stability these partners bring can be the key to achieving impact and financial success in our investments.

One example is Lightsource BP, a leading British developer of renewable energy projects. It invested into Ayana, an independent wind and solar energy generation company that we established in 2018, to increase India's supply of reliable and clean energy infrastructure. Another example is our partnership with Liquid Telecom, a company established in the UK in 2005, who we're partnering with to improve access to affordable and quality internet across Africa (see case study on page 10 and opposite ▶).

5 We're partnering to invest in challenging markets

As long as CDC has existed, we've been committed to supporting economic development in the world's fragile and conflict-affected states. In 2017, we re-emphasised that commitment to prioritising investment in poorer and more vulnerable countries. Since then, almost 50 per cent of our average annual investment disbursements have been made into countries and Indian states with the highest levels of investment difficulty (termed as 'category A and B').

Over the last five years, we've learnt that to be most effective, we need to adapt our approach to the context in question. Investing in fragile states, and supporting them on a path to stability and prosperity, is something that's difficult to do alone and requires collaboration across organisations.

For example, we've found we can have the most impact and success when we're working with an established local partner with strong networks on the ground. Our partnership with Liquid Telecom is an example of this, as we've supported the company in rolling out fibre-optic cable across the Democratic Republic of the Congo (see case study on the right ▶).

Closing the digital divide in Nepal

In Nepal, WorldLink has grown to become the country's largest private internet service provider, laying over 8,000km of fibre network and connecting hundreds of thousands of households and small businesses to the internet. Armed with our capital, WorldLink has been able to fulfil its ambitious expansion plans. Since our investment in 2019, the company has increased the number of households it reaches by 46 per cent to 477,000. The company's services now reach remote places such as Karnali, the most mountainous and underdeveloped province in Nepal. WorldLink has also been recognised by the Nepali Government as the country's highest taxpayer and largest employer in the IT sector.

This approach also involves collaborating more effectively with other DFIs in challenging markets. In 2019, together with the International Finance Corporation (IFC), we worked with the Blavatnik School of Government at the University of Oxford to host a forum on investing in fragile states. It has since become an annual event, addressing the difficulties of attracting investment and considering ways DFIs can work together more effectively. It has resulted in pilot programmes to increase collaboration in selected countries.

One initiative that has emerged from the forum is Nepal Invests. It's an innovative platform created by a partnership of DFIs and development partners, including CDC, to build the market and increase investment into the country. The first initiative of its kind in Nepal, the platform will support economic growth in several ways: addressing business environment challenges, exploring innovative ways to finance SMEs, and increasing the skills and capacity of local investment professionals.

Learning from our experience investing in fragile states

While we've experienced successes getting capital into fragile states, we've faced challenges too. We've found that, in some instances, making direct investments into companies doesn't always achieved the desired impact. For example, in our investment in Feronia, a palm-oil producer in the Democratic Republic of the Congo, hostile and volatile conditions have made progress and financial sustainability extremely difficult. Another example is our presence in Myanmar, where ongoing instability has meant we've paused investing and are focusing on managing our existing investments.

As we move into a new strategy period, our focus will be on developing a broader range of partnerships with financial institutions and corporates with a pan-African presence, as a means to having an impact in fragile countries. For example, our current investment in Liquid Telecom during this strategy period has allowed the business to accelerate the development of critical digital infrastructure in places that lack affordable and reliable broadband, like the Democratic Republic of the Congo. These partnerships give us access to expert country knowledge and navigation that would be impossible for us to replicate by ourselves.

An innovative approach to development finance

Our pioneering history shows that when we innovate, we're able to enhance whole sectors or markets and achieve impact that would otherwise be impossible.

In 2017, we set out our vision to bring about new business models, develop nascent or failed markets and, in the long run, improve the economy in countries where we invest. Since then, we've pursued innovative strategies, now known as our Catalyst portfolio, and individual investments that transform economies and communities.

In this section:

An innovative approach to development finance
continued

1 We're tackling global healthcare challenges through a fresh approach to finance

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. In 2017, we established MedAccess to provide innovative social finance that expands and accelerates access to life-changing medical supplies in these regions.

The first pricing agreement MedAccess made, with medical manufacturer Hologic, enabled it to increase access and reduce prices for viral-load diagnostic testing systems, a technology critical to the lives of people living with HIV. Prices are now 50 per cent lower in some of the world's poorest countries, which has saved them $18 million to date and could save them up to $50 million over four years. MedAccess also increased access to vital medical supplies during the COVID-19 pandemic, which you can read more about on page 19.

Thanks to the pricing agreement made by MedAccess, prices for viral-load diagnostic testing systems are now

50%

lower in some of the world's poorest countries, which has changed 445,000 lives

2 We're transforming electricity networks in Africa

We've made headway on our commitment to transform parts of the energy sector in Africa. Gridworks, a development and investment platform set up by CDC in 2019, is addressing underinvestment in electricity transmission, distribution and off-grid infrastructure. It helps to build the infrastructure that makes the wider power sector sustainable and more attractive to private-sector investment.

In 2020, Gridworks announced that it would lead a consortium that will run a programme to build and operate three new utilities, serving cities in the north of the Democratic Republic of the Congo, using solar-powered mini-grid technology. The project will bring power to hundreds of thousands of customers who do not currently have an electricity connection.

3 We're scaling up our venture capital commitments

Successful early-stage companies backed by venture capital have the potential to create large numbers of jobs and deliver impactful services. This is particularly true in emerging markets where technology-enabled firms can leapfrog market constraints to enable large-scale access to essential products and services.

To accelerate our investments in early-stage companies that use technology and innovative business models to achieve transformational impact, in 2019 we launched a Venture Capital Scale-up Strategy. The programme co-invests with fund managers supporting such businesses, and expands on our existing work investing in venture capital funds to develop the venture ecosystems in Africa and South Asia.

To date, we have committed over £100 million across 12 venture capital funds and almost £20 million across eight early-stage co-investments.

This includes businesses like mPharma, a Ghanaian healthcare company that uses data and technology to help make medicine supply chains more efficient and reduce the costs of medicines.

Our Catalyst Strategies reached over

40 million

people in 2020

CDC Plus at a glance

We've established our technical-assistance facility, CDC Plus, to make a lasting difference to the lives of underserved groups. Using our experience as an investor in emerging markets, we identify and create impact opportunities that are beyond the scope of returnable capital.

Our Catalyst Strategies at a glance

Our Catalyst Strategies shape nascent markets and build more inclusive and sustainable economies. Because they involve investing in markets where there are few precedents or benchmarks, we take a flexible approach to risk in exchange for pioneering impact.

An innovative approach to development finance
continued

4 We've used technical assistance to deliver impact further and faster

To date, CDC Plus-funded investees and projects have affected more than

10 million

people in our markets, and more than 8,500 businesses

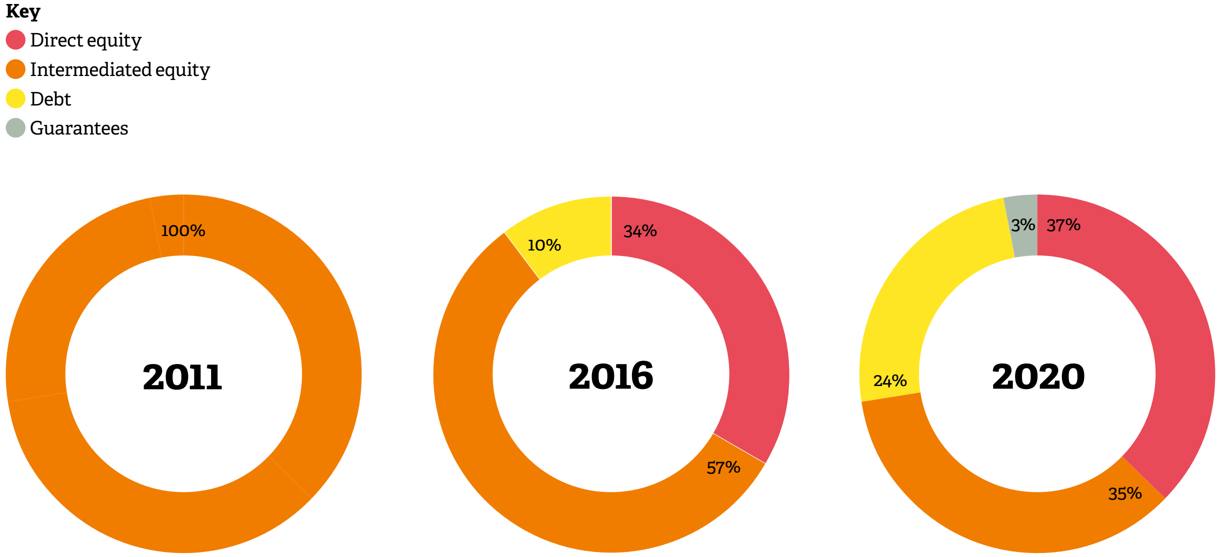
Through our technical assistance facility, CDC Plus, we're making a difference to the lives of underserved groups. To date, CDC Plus-funded investees and projects have affected more than 10 million people and more than 8,500 businesses.

First, we've helped businesses in our portfolio become more inclusive and sustainable. That ranges from supporting a manufacturing firm to pioneer 3D printing technology to build affordable housing in Kenya, to training women to operate heavy machinery at a logistics firm in Gabon.

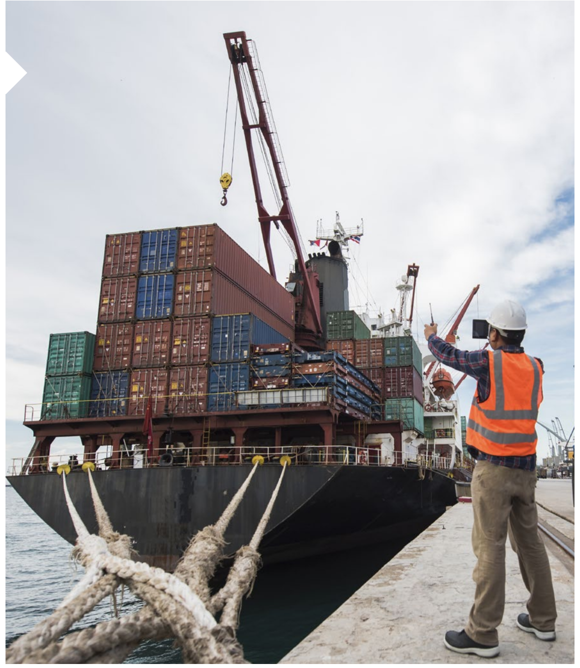
Second, we've supported projects that shape the private sector's approach to themes such as gender equality and climate change. These range from funding guidance on gender-smart investing for fund managers, to supporting training which accelerates ESG standards within the private sector.

5 We're providing capital flexibly to meet the needs of investees

Portfolio structure by product



Over the last ten years, and the last five in particular, we've shifted from a single-product business, investing only in funds, to a multi-product business, investing in funds, equity and debt. Within that, we've invested in specific products, including project finance, corporate debt, and trade and supply chain finance. We're flexible in the type of capital we provide, to ensure we meet the needs of our investees and can achieve a wider range of impact objectives.



6 We're keeping trade flowing across Africa and South Asia

Trade finance is crucial to the success of a developing economy. Africa's trade finance deficit is estimated as being between $110 billion and $120 billion – representing about 25 per cent of the demand for trade finance in Africa. The region's businesses are critical to advancing trade, yet they often face constraints in accessing finance, which stagnates their growth.

We've focused on building partnerships, usually with local banks, to bridge this financing gap and support trade undertaken by local businesses. This has been particularly important during the COVID-19 pandemic. At a time when commercial investors have withdrawn, ensuring the continuation of trade has been key, and we've worked with existing partners to adapt trade finance during this time of uncertainty (see case study ▶).

In response to COVID-19 we supported trade finance facilities with commitments of

£305 million

Our COVID-19 response

As the scale and impact of the pandemic became clear early in 2020, we knew we needed to act with urgency to provide support and to rise to the challenge. We concentrated our response on three areas:

Preserve: helping our partners safeguard impact and weather the crisis
Our first priority was to support our current investee businesses affected by the crisis, whether through providing finance or advice.

Strengthen: helping businesses respond to economics
We worked with local banks and other financial institutions to provide the working capital businesses need. This included making investments that would increase access to healthcare and basic services.

Rebuild: a long-term partner to the countries where we invest
We know that finance and support from institutions such as CDC will be critical to the rebuilding process, including economic, social and environmental recovery. Our aim is to support the countries where we invest beyond the pandemic, through to recovery and prosperity, by providing much-needed counter-cyclical funding and being one of the first investors to re-enter the market.

At a time when capital retreated from Africa and South Asia, we provided much-needed, impact-driven, targeted capital and liquidity to our partners on the ground. Examples include the following:

- MedAccess – a subsidiary of CDC that provides innovative social finance to enable life-changing medical supplies to reach people in Africa and Asia – responded rapidly to the pandemic. This resulted in a guarantee to support UNICEF in securing vital COVID-19 medical supplies., including 500 million syringes for COVID-19 vaccines and 3.1 million diagnostic test kits to help frontline health workers in 63 countries.
- Working with international financial institutions, we've used trade finance to provide businesses in Africa and South Asia with continued access to short-term liquidity to minimise disruption of their operations and supply chains during the crisis. Throughout 2020, we agreed trade finance facilities with four partners, with commitments of £305 million.
- Our technical assistance facility, CDC Plus, approved £5.2 million for 65 COVID-19 technical assistance projects, providing direct support to 84 businesses in our portfolio. These projects affected over four million people in the countries where we invest, through increased access to healthcare and to basic goods and services. They also helped businesses adapt to weather the pandemic.

We're proud that in October 2021 the PRI, a UN-supported network of investors, awarded CDC the 'Real-world impact initiative of the year' for our COVID-19 response.

An enduring organisation

Ensuring value for money for the UK taxpayer

To achieve all of this, we have made significant organisational changes. We have ensured that the steady build-up of the organisation takes place in a thoughtful way, always mindful of our role as a steward of UK taxpayers' money.

Our investment mandate is challenging, so we've had to build our capabilities to achieve this scale. We've grown from a team of around 220 people in 2017, to around 500 in 2021. Most importantly, we've made that growth in the areas that are crucial for the delivery of our mandate. It's included growing our team of impact professionals from fewer than 20 to over 70 people over the last five years. It's also meant growing the number of staff based in Africa and South Asia, from 15 to almost 70 people. And to manage and mitigate the risks inherent in our mission, as well as the introduction of new higher-risk investment strategies such as Catalyst, we've developed a new risk function, including appointing a Chief Risk Officer, and appointing over 30 staff in risk, business integrity and compliance.

This build-up means we're providing more long-term capital in some of the hardest places to invest in the world. Since 2017, we've committed almost £7 billion ($9 billion), and in doing so we've become an institution that commits on average around £1.5 billion a year. This growth has also had an impact on our overall portfolio. Today, we manage around £7.5 billion ($10 billion) in assets, compared with around £5 billion (almost $7 billion) at the start of the strategy period.

Total staff in 2021 is around

500

compared to 220 people in 2017

Impact professionals in 2021

70+

compared to less than 20 people in 2017

Staff based in Africa and South Asia in 2021 is almost

70

compared to 15 people in 2017

Risk, business integrity and compliance professionals in 2021 is almost

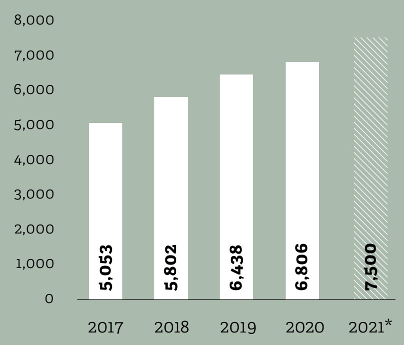
40

compared to 10 people in 2017

But at the same time, as a result of our developmental strategy to focus exclusively on the most challenging markets of Africa and South Asia and to take on greater risk in exchange for more impact, we have consistently forecast that financial returns would reduce over time. Factors such as COVID and the strengthening of sterling have also had a negative impact on the financial performance of our portfolio. We acknowledge that the nature of the development finance business means from time to time, some investments will fail. These are expected, learned from and acceptable within our risk profile, as long as we remain on track to achieve the portfolio-level commitments on long-term financial returns we've made to our shareholder. We committed to achieving a ten-year average return of 3.5 per cent for our Growth portfolio, and we have met this target, with our estimated average annual portfolio return since 2012 at 6.2 per cent.

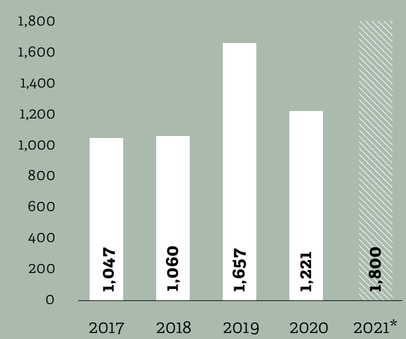
Finally, as a publicly owned body, we understand the importance of operating transparently. We have a good track record on being transparent, and we were the first DFI to publish to the International Aid Transparency Initiative. We published a Transparency and Disclosure Policy which has guided our approach, and advances over the last five years have included publishing our impact dashboards for each individual investment on our website. We also published a new Tax Policy, which sets out our approach to ensure our investee companies approach tax responsibly, that UK taxpayer money is sufficiently protected, and that we are able to mobilise capital into African and South Asian businesses.

Net assets (£m)



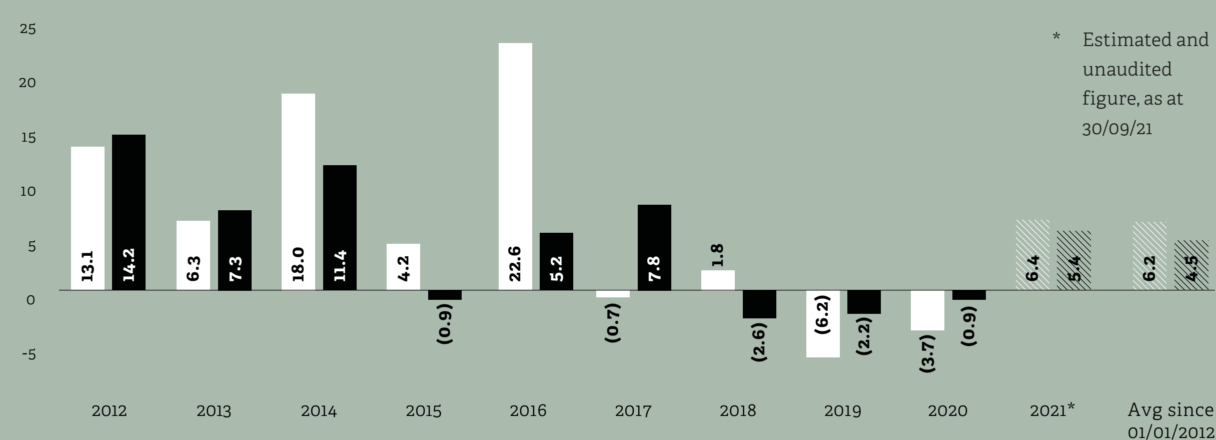
* Estimated and unaudited figure, as at 30/09/21

New commitments (£m)



* Projected and unaudited figure

Portfolio return (%)



* Estimated and unaudited figure, as at 30/09/21

Before the end of 2021 we will publish our strategy for the next five years. This strategy will build on the lessons of the last strategy period, as we continue to find the best ways to support the businesses and countries where we invest. We will also be changing our name to British International Investment, from 4 April 2022.

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