# CDC Group plc Annual Review 2010

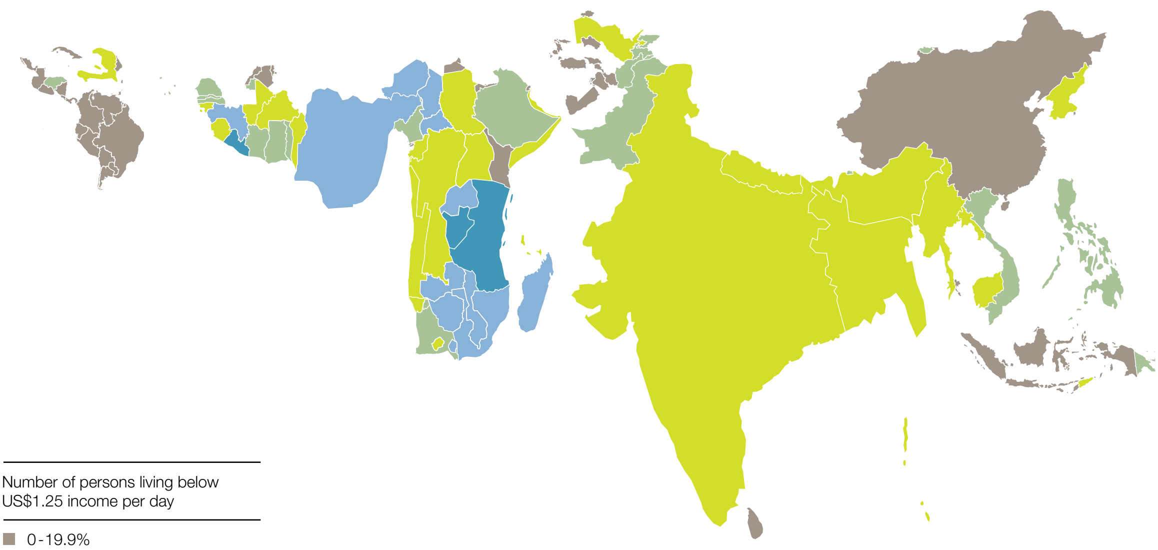
CDC

# Our mission is to foster growth in sustainable businesses, helping to raise living standards in developing countries.

## Contents



## The proportion and size of chronically poor populations in the world



Number of persons living below US$1.25 income per day

- 0-19.9%
- 20-39.9%
- 40-59.9%
- 60-79.9%
- 80-100%

# Our Investment Policy is to make more than 75% of new investments in low income countries and to invest more than 50% of our funds in sub-Saharan Africa.

## About CDC

Established in 1948, CDC is the world's oldest development finance institution (DFI). CDC is wholly owned by the UK government's Department for International Development (DFID).

DFID uses a range of tools to achieve development and poverty reduction, including aid, budgetary support and technical assistance, but also private sector development. The private sector is the engine for economic growth and long-term poverty reduction. CDC plays a key role in DFID's strategy to help build a thriving private sector in the developing world.

## What CDC does

CDC's mission is to foster growth in sustainable businesses, helping raise living standards in developing countries.

To do this, CDC provides much-needed capital to invest in promising businesses in developing countries where a lack of capital is holding back growth. Crucially, CDC operates as a commercial investor, expecting an appropriate return from its investments in order to encourage other private investors to put their capital to work in poorer countries and to ensure the businesses in which it invests are sustainable. It is a measure of CDC's success that it has received no fresh capital from government since 1995, and has returned a profit (which is reinvested) of £1.8bn since 2004.

## How does CDC operate?

Since 2004 CDC has mainly operated as a fund-of-funds. This means that CDC places capital with expert fund managers who then use their local knowledge and expertise to find promising businesses in which to invest. On occasions, CDC will invest directly in a business alongside a fund. The fund managers then work with the investee companies to grow the businesses and, if needed, improve environmental, social and governance standards (see page 27).

## Governance

CDC is not a quango or non-departmental public body. It is a government-owned plc operating at arm's-length from its owner, DFID. CDC has its own Board and governance arrangements, overseen by DFID as advised by the Shareholder Executive.

CDC invests according to an Investment Policy set by DFID in 2009. In 2011 DFID will set a new Investment Policy for CDC, including revised geographies and sectors. This will not, however, change CDC's fundamental purpose which is to foster private sector growth in developing countries.

# How CDC works

Since 2004 CDC has operated primarily as a fund-of-funds investor. This means CDC puts its capital to work alongside other investors in private equity, infrastructure and other funds. The funds are raised and developed by fund managers, who then make and manage investments in promising businesses in developing countries.


### Why has CDC invested in this way in the past?

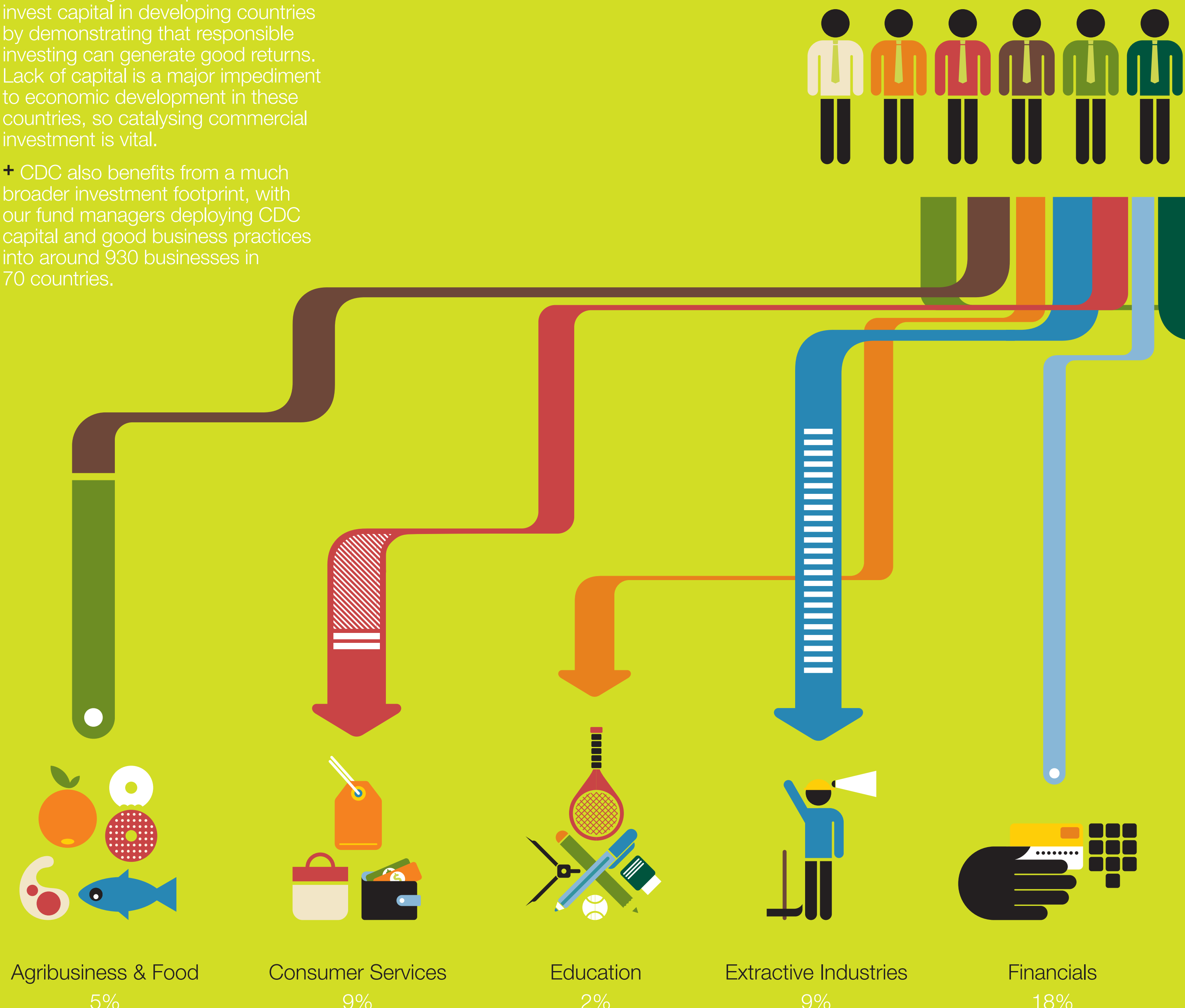
+ Many of the fund managers are based in developing countries so CDC can take advantage of their local knowledge and expertise both in sourcing and supporting our portfolio companies. Investing with local managers also strengthens local investment infrastructure.

+ It encourages third parties to invest capital in developing countries by demonstrating that responsible investing can generate good returns. Lack of capital is a major impediment to economic development in these countries, so catalysing commercial investment is vital.

+ CDC also benefits from a much broader investment footprint, with our fund managers deploying CDC capital and good business practices into around 930 businesses in 70 countries.

### But more will be done in the future

+ Equity investing is not appropriate for some sectors in poorer developing countries. From 2011 CDC will therefore use new investment instruments to deploy its capital in difficult places. These will include debt, co-investment and guarantees.



For each £1 that CDC invests

Other development finance institutions typically invest £1* to match the CDC investment

And commercial investors provide a further £2.70* of capital

The capital is then pooled by one of CDC's 71 fund managers

And the fund managers then invest and manage the capital in promising businesses in developing countries

*Based on CDC's three-year rolling mobilisation 2008-10 (see page 20)

# 71
Fund managers

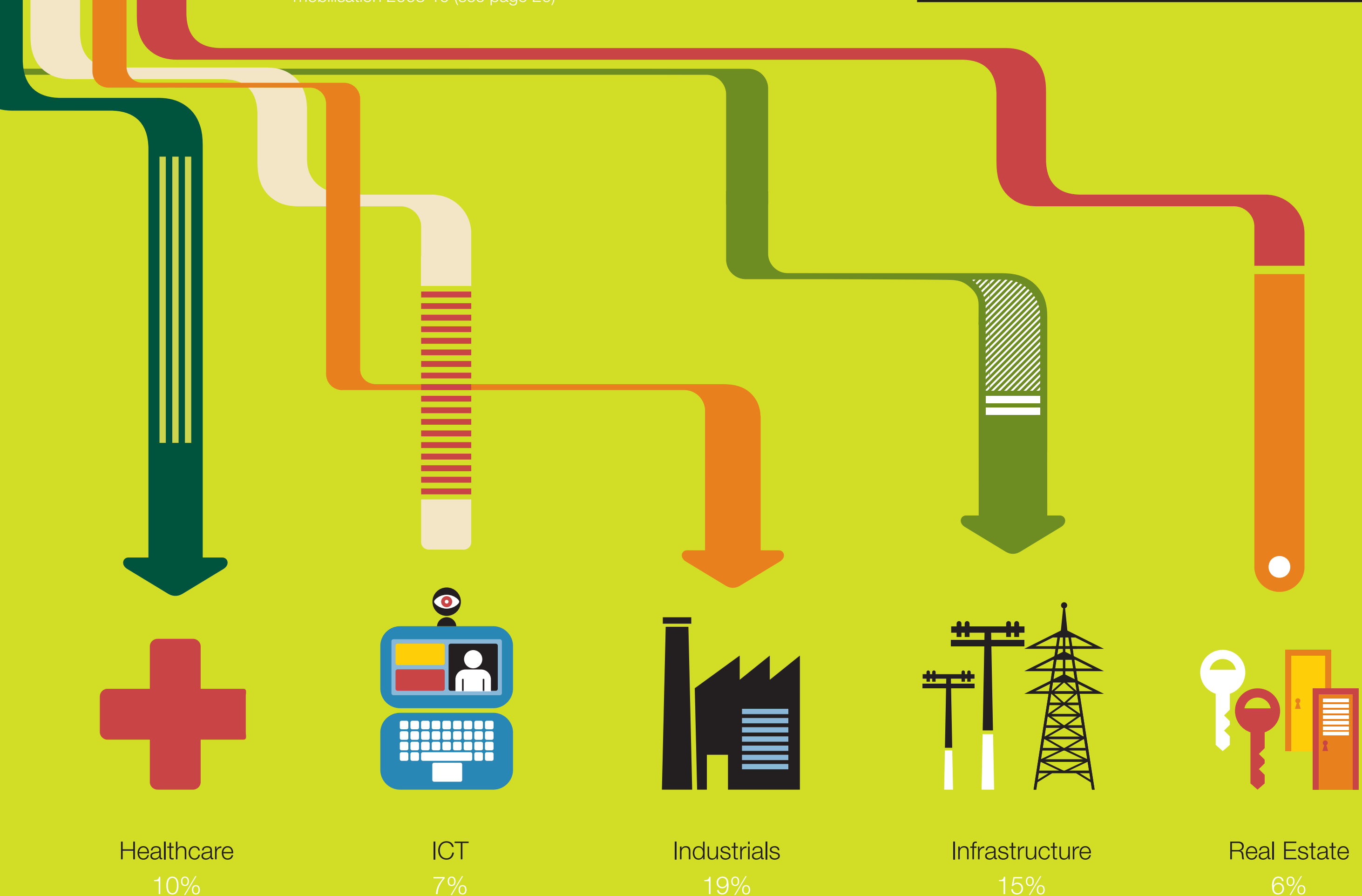
# 143
Funds

# £231m
New commitments to funds in 2010

# £1,933m
Total portfolio value

# 930
Companies in 70 countries

# 3m
Lives supported in developing countries (approx.)



# Growth for development

Introductory statement from the Chairman, Richard Gillingwater CBE, and Chief Executive, Richard Laing

**Richard Gillingwater, Chairman**. In the developing world, having a job is the key to a better life for poor people and their families. The private sector provides employment opportunities. Businesses of all kinds, all sizes and in all sectors are essential for sustainable development. Plus there are broader benefits to society. Businesses also pay taxes to their local governments to fund essential services for the whole community such as hospitals, schools and infrastructure. Without successful businesses, there's no development.

**Richard Laing, Chief Executive**. However businesses must be sustainable too and sustainability has two aspects. Firstly, it means operating businesses in a responsible manner, paying attention to environmental risks, social issues for workers as well as problems with corruption and poor governance. Secondly, a business is only sustainable if it's profitable. A company that loses money cannot attract investment and cannot grow. The company will go out of business and jobs will be lost. CDC's capital is helping 930 companies. Those companies support the lives of over three million in poor countries. When the companies are doing well, they're paying taxes to their governments. CDC backs businesses that generate annual taxes of over US$3.1bn. Profitability really matters. It matters for CDC as an institution too. So, it's good to be able to report on a year when CDC made returns of £269m, which will all be ploughed back into new investments in poor countries. Our own profitability means that we have not had any new money from government for over 15 years. We're self-sustaining and that's important in the present domestic economic climate.

**Richard Gillingwater**. One of the main problems is that in the poor countries of sub-Saharan Africa and parts of South Asia, finance is scarce for entrepreneurs and their businesses. Investors are reluctant because poor countries can be seen as too risky. This is holding back the developing world's potential. Although progress has been made, there's a long way to go. The World Bank estimates that for infrastructure alone, sub-Saharan Africa has an annual shortfall of US$50bn. It's true that the situation is better than it was ten years ago, but the global financial crisis has taken a heavy toll on poor countries.

**Richard Laing**. Which is why development finance institutions like CDC are so important. Investing in some of the world's most difficult markets is hard and we don't always get it right. But the vibrant entrepreneurial spirit needs risk capital to flourish. Another World Bank study showed that 50% of African companies identify lack of access to finance as a major constraint to doing business. Promising businesses urgently need patient, long-term, intelligent capital. In 2010, CDC invested £420m, mainly in sub-Saharan Africa and South Asia. But our capital alone is not enough – that's why it is so encouraging to see that other investors came alongside us and invested an additional US$1.9bn in funds where CDC has invested. Third party commercial investors really are the key to long-term development. Many poor countries, particularly in Africa, need to demonstrate to international capital markets that they are a good investment destination. Economic reform and tackling corruption are the main barriers. Progress is being made, but there's a long road ahead.

**Richard Gillingwater**. The picture is more encouraging in other parts of the developing world. India is growing at a strong pace. Investors see the opportunities and the private sector is making an enormous contribution to economic growth. Although it's easy to forget that one third of the world's poor live in India. The key task there for CDC is to focus investment so that the benefits of growth can be shared by all. Microfinance is a good example. It is developmentally powerful and it's right that CDC invests in microfinance institutions. The events linked to microloans in Andhra Pradesh in 2010 were a stark reminder of the importance of responsible business practices. CDC also ensures that when we identify a gap in funding, we aim to fill it, to the extent that our resources permit.

**Richard Laing**. A good recent example of this is the new fund we have set up for sub-Saharan sustainable forestry. We noticed that there was a severe shortage of capital for this essential sector. So we published an invitation to tender for the management of a specialised fund, selected a fund manager (the Global Environment fund) and committed US$50m last year. I am pleased to say that five other investors have now also committed an additional US$77m alongside us and the fund has already made its first investment.

**Richard Gillingwater**. CDC has always taken the management of environmental, social and governance matters – ESG issues – extremely seriously. Good management of ESG issues at investee businesses is one of the greatest benefits of private equity investing and is an example of the added value that fund managers can bring.

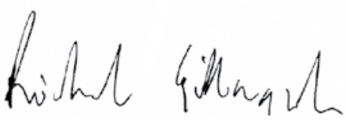
**Richard Laing**. In 2010 we extended our ESG work with fund managers. We launched a revised and extended toolkit for fund managers to help them manage ESG issues and work with their investee companies on the ESG journey. Our fund managers really welcomed this and, during the year, nine training sessions were held for 45 fund managers in eight locations. More broadly, there is the important task of building capital markets so that entrepreneurs and businesses have more routes to access the investment they need to grow. We are helping first time teams build their track records and so increase the prospect of attracting future investors. 54% of CDC's managers are first time teams and that's an indicator of our long-term development impact in building capital markets. CDC has shown that private equity can make a valuable contribution.

**Richard Gillingwater**. The needs of the private sector in poor countries are complex and one investment instrument alone cannot hope to meet all those needs. That's why we welcomed the review of CDC announced by the coalition government in 2010. We're enthusiastic about the possibility of extending our range of investment instruments. That would allow us to target capital in the places where it's most needed. Debt, guarantees and other mechanisms all have a contribution to make. Our task must always be to ensure that the poor benefit from economic growth. The changes will be finalised in mid-2011 and we relish the challenge of putting the new plans into effect.

**Richard Laing**. CDC is and always has been an innovative investor with development at its core. The organisation will adapt and incorporate change with its characteristic energy and creativity. After seven challenging but enjoyable years as CEO, I recently announced my decision to retire in early 2012. The Board will now work to identify a new CEO and then I will hand over the reins to the person who will lead the company in its next stage of development. In the meantime, I'm proud that so much was achieved by CDC in stimulating the private sector in poor countries in 2010. Of course much remains to be done. The need for capital is immense and the task of development finance institutions is far from being fulfilled.

**Richard Gillingwater**. I would like to thank Richard for his outstanding contribution to CDC during his 11 years with the organisation. CDC's value stands at £2.8bn today and under Richard's leadership £1.8bn in additional resource has been created for investment in poor countries. This is a significant achievement.

Also, after 13 years Professor Jonathan Kydd stepped down as a Non-executive Director of CDC in 2010. Two other long-serving Non-executive Directors, Arnab Banerji and Andrew Williams, also left the Board this year. They all made a significant and valuable contribution to the organisation and we are grateful for all their dedication, wisdom and hard work. Three new Non-executive Directors have joined the Board: Dr Ian Goldin, who has an internationally recognised reputation in the field of development finance and economics and is currently director of the James Martin 21st Century School at the University of Oxford; Valentine Chitalu, an entrepreneur in Zambia and southern Africa, previously at the Zambian Privatisation Agency; and Jeremy Sillem, who has a wealth of experience in international capital markets and fund management. All bring additional expertise to CDC along with a deep commitment to development. Thanks also to the whole of the CDC team who have achieved so much in a challenging year. As CDC moves forward to its next phase, that team will be instrumental in continuing to drive CDC forward successfully.



**Richard Gillingwater CBE** Chairman

**Richard Laing** Chief Executive

# 2010//Calendar

## CDC's year at a glance

In 2010 CDC made 15 commitments to new funds, and total commitments were £231m. Meanwhile the existing portfolio of 930 investee companies (at 31 December 2010) continued to operate, frequently growing and developing their businesses. Some highlights of CDC's year are outlined here.

## April

**First time fund manager**

India

CDC committed US$30m to Multiples Private Equity Fund I. The first time fund manager invests in businesses across a range of sectors, including financial services, healthcare, infrastructure, shipping and retail.

Jan Feb Mar Apr May Jun

## July

**Small and medium enterprise (SME) investments**

West Africa

CDC approved a €8m commitment to Cauris Croissance II, a fund targeting SME investments in francophone West Africa. The first time fund manager grows businesses through a combination of investment and business advice. This drives economic development and job creation in a part of Africa that has traditionally seen little private equity investment.

## May

**Expansion investment**

Africa

CDC committed US$15m to Adlevo, which focuses on expansion investments in technology-enabled infrastructure and services companies in sub-Saharan Africa. This is a new strategy in African private equity.

# Oct

## Growth capital

## Bangladesh

In October 2010, CDC made a US$10m commitment to the first private equity fund dedicated to Bangladesh, the Frontier PE Fund. The fund will inject growth capital into promising Bangladeshi businesses.

# March

## Wind power

## China

Fund manager GEF invested US$30m into UPC Renewables, a China-based wind power generation company, helping the company add a further 150MW of green energy capacity.

Jul Aug Sep Oct Nov Dec

# Nov

## Board seminar

## Kenya and Uganda

The CDC Board travelled to Kenya and Uganda to meet fund managers and visit investee businesses. Visits included Brookside Dairy which sources its milk from 150,000 smallholders and Wananchi (see page 35), and the Board also organised a seminar on entrepreneurship in Nairobi.

# Dec

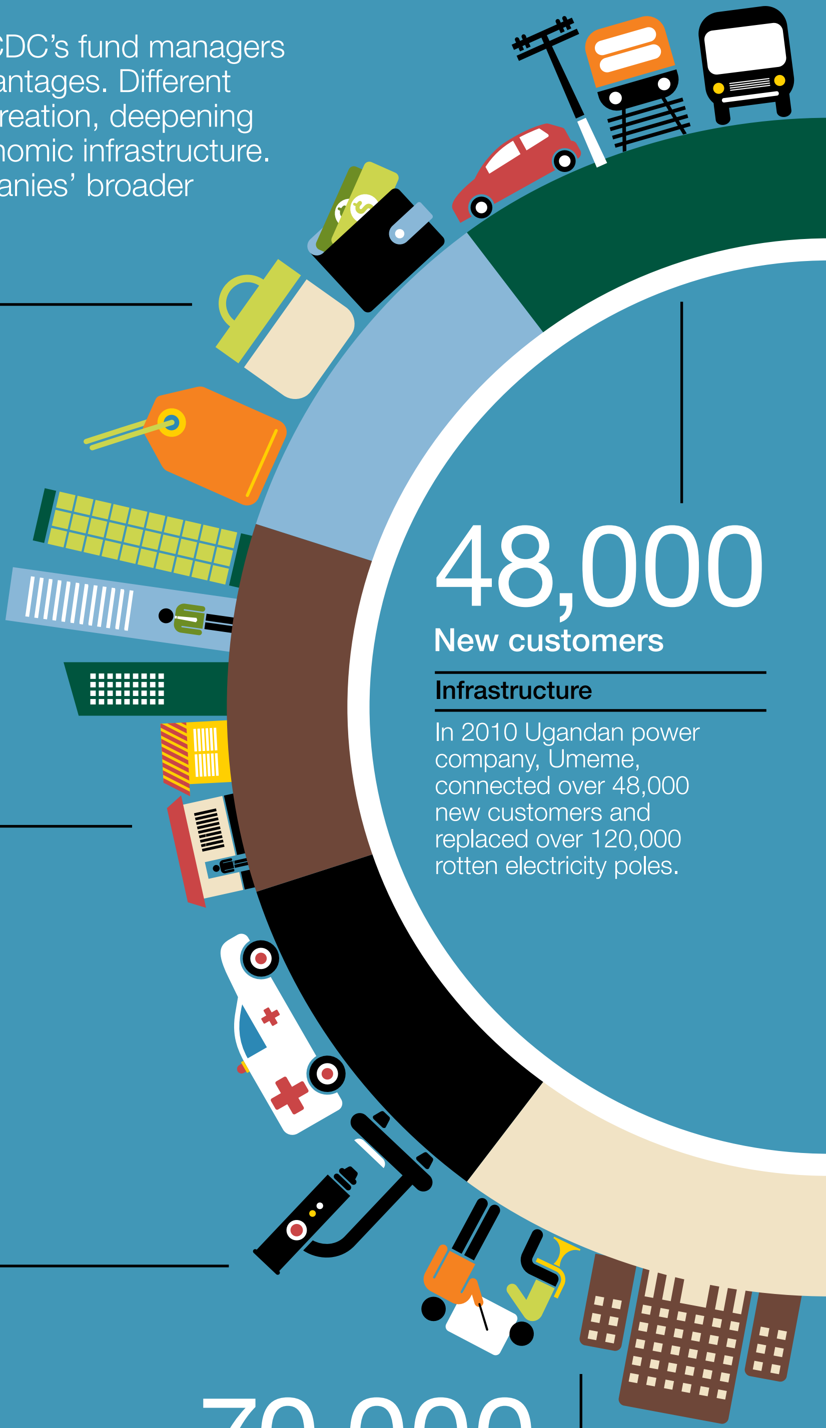
## Successful exit

## India

Fund manager Actis successfully exited Paras Pharma, a leading Indian healthcare and personal care products company. Actis invested in Paras in 2006 and again in 2008. During this time strong financial management and impressive environmental, social and governance improvements helped increase net sales to INR 4,014m. Paras was sold to a UK FTSE 100 company at the end of 2010.

# CDC's impact

Sustainable growth needs mixed economies, so CDC's fund managers invest in all sectors, playing to each country's advantages. Different sectors have different development impacts: job creation, deepening financial inclusion, building local services and economic infrastructure. Here are some examples of CDC's portfolio companies' broader development impact.



## 123,000
**Jobs**

### Consumer services

In 2010, CDC's capital was at work in 93 consumer services companies in 22 countries. Together these companies employ over 123,000 people and support the lives of many more.

## 1,000
**Jobs**

### Real estate

The retail sector in Africa is becoming more important to economic development, particularly as African countries continue to urbanise. CDC's capital has helped develop Ghana's first and only A-grade shopping mall, creating extensive supply chains for local products, often displacing imports. To date, Accra Mall has created over 1,000 jobs.

## 48,000
**New customers**

### Infrastructure

In 2010 Ugandan power company, Umeme, connected over 48,000 new customers and replaced over 120,000 rotten electricity poles.

## 770
**Hospital beds**

### Healthcare

Fund manager Actis has invested in healthcare provider Sterling Add-Life, which has 770 beds across five multi-speciality hospitals in Ahmedabad, Baroda, Rajkot, Mundra and Bhavnagar.

## 70,000
**Students**

### Education

One of CDC's 12 education investments, Manipal Universal, is currently training over 70,000 students through its distance, vocational and continuing education initiatives in India.

# 15,000
## Smallholders

### Agribusiness

Tatepa in East Africa procures 95% of its green leaf tea from 15,000 smallholders who have almost 3,000 hectares under cultivation. The factory also buys firewood for its drying ovens from smallholders to help them generate additional income.

# 100km
## Roads

### Extractive

As part of its strategy of aligning local and business interests to build a sustainable mining business in the Democratic Republic of Congo (DRC), Banro has constructed and repaired over 100km of local roads and nine community bridges. The company has built two schools in Namoya and Twangiza, which together educate over 500 local children.

# 500
## Kenyan Shillings (KSH)

### Financial Services

Equity Bank in Kenya was praised by the Financial Times in 2010, recognising CEO Dr James Mwangi for transforming the lives of many people in Kenya including low income earners who have been able to borrow as little as 500 shillings (roughly £3.50) from the bank.

# 4★★★★
## Star rating

### ICT

InfrasoftTech's OMNIEnterprise Microfinance Solution was awarded a four star excellence rating by Consultative Group to Assist the Poor. The software's offline functionality helps microfinance institutions overcome internet connectivity challenges in remote locations, thereby enabling uninterrupted business in these regions. It is used in India, Ethiopia, Ecuador, Azerbaijan, Cambodia and Kenya.

# 50m
## Litres of safe drinking water per day

### Industrials

Since CDC's investment, Saisudhir has completed projects worth US$98m, to provide water to villages across Karnataka and Tamil Nadu and commission water treatment plants to provide over 50 million litres of safe drinking water per day to villages in Rajasthan, Goa and Karnataka.

# Alleviating poverty

For people in the developing world, a job is the only way out of poverty. But employers can't grow their businesses because finance is so scarce. Investors see poor countries as too risky and hesitate to apply their capital. CDC's job is to lead investment and to go where others will not. CDC's capital is helping 930 businesses to develop and support the lives of over three million people.

## Key facts

**1.2m**
people have opened bank accounts using Atyati's technology

**2,800**
villages in Andhra Pradesh alone have Atyati services

**40%**
of India's rural population has a bank account

**3,500**
indirect jobs have been created

## Rural employment

### Atyati

In India approximately 75% of poor people live in rural areas and face limited employment opportunities outside the agricultural sector*. Access to financial services will help people move out of poverty, but the geographical challenges in bringing banking to a large rural population are significant. There are currently 180 million people in India who have the credit history and financial stability to be eligible for a bank account but who remain unbanked**.

In February 2008 CDC committed US$20m to the VenturEast Proactive Fund, a fund that makes investments in early-to-growth stage technology businesses. The fund manager has since invested US$3.5m in Atyati, a company that has developed technology to bring government and financial services to rural and semi-urban areas.

It is too expensive for government or banks to have a 'bricks and mortar' presence across India's vast rural population. The Atyati platform, called 'Ganaseva', allows the Indian government and banks to administer financial services remotely, with significantly reduced transaction costs. For example, the government now uses Atyati to distribute monthly pension payments in Andhra Pradesh. Several banks have also contracted Atyati firms to extend the reach of their services to rural areas.

CDC's investment has allowed Atyati to roll out its technology to reach thousands of villages in poor states such as Andhra Pradesh, Uttar Pradesh and Bihar. While the Ganaseva platform does not require an office network it does require a network of agents to operate the technology, creating significant employment opportunities.

As well as 60 direct employees, Atyati has indirectly recruited over 3,500 people by working with hundreds of not-for-profit organisations and self-help groups in rural areas. In exchange for a share of revenue, they use their local knowledge to recruit Atyati 'agents' who are trained to administer pension payments and bank services. Atyati uses sophisticated systems to reduce fraud, including smart cards for pensioners that require fingerprint authentication to access monthly payments.

Siddhartha Das, General Partner of VenturEast said: "Atyati is a model company to drive the agenda of inclusive growth in India. They have unique technology, lots of passion and the ability to taken calculated risks to tap into the large semi-urban and rural opportunities."

**Dharmavathi, a pensioner in Andhra Pradesh:**

"With the new system I get money in the evening, so it doesn't affect our work during the day. A very big thank you."

**An agent who administers and pays out pensions:**

"My name is Satya... Previously I didn't know how to operate a computer. Having been trained, I'm now able to disburse pensions through the computer. I'm thankful for the opportunity to serve old and physically handicapped people in the village."

*Source: World Bank
**Source: Diamond Management and Technology Consultants

01

02

03

## Inclusive technology

• Large financial inclusion projects are being undertaken by public sector banks. The Atyati platform gives rural unbanked people access to no-frills savings accounts, and enables doorstep transactions.

• Villages without IT fall victim to fraud and exploitation. Atyati's laptop-based service incorporates fraud prevention mechanisms like fingerprint authentication, voice announcements and encrypted data storage.

• Basic services like insurance are unavailable at remote locations due to lack of information and poor connectivity. CDC's investment has helped Atyati roll out technology that ensures more equitable distribution of government benefits.

## Investment data

> VenturEast Proactive Fund

> Invested 2008

> 60 direct employees

> 3,500 indirect employees

> Based in Karnataka, India

01 An Atyati agent banks money from a rural trader

02 A self-help group

03 An Atyati agent verifies a pensioner's identity using mobile fingerprint identification technology

# Alleviating poverty
## continued

### Microfinance for entrepreneurs

Liberia is a country that faces many problems. A shortage of entrepreneurs, however, is not one of them. Take Addy Nyemah, a textile trader in the capital Monrovia, for example, or 34 year-old Henry Wellington.

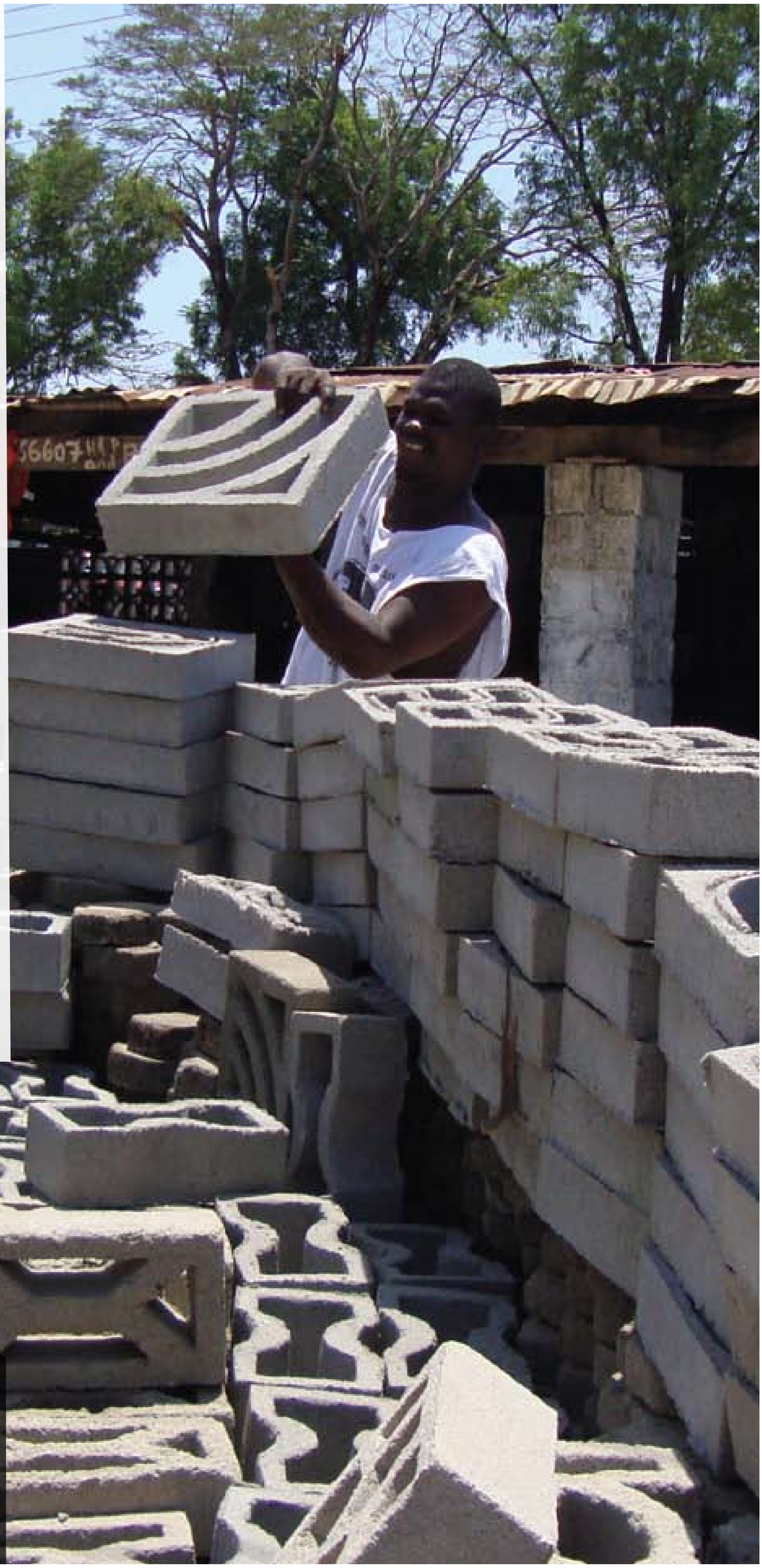
### Henry's story

Twelve years ago Mr Wellington started his cement block production business after his grandfather had passed on to him the experience and passion for this profession. The income generated from the business allowed him to finance his studies in accounting at the University of Liberia. In spite of his professional skills and natural business acumen unfortunately Mr Wellington's business did not proceed as he planned.

A lack of capital prevented him from buying enough cement to meet the demand of his growing customers. As a consequence he was often forced to ask customers to pay in advance before delivering the full order, and this limited the number of potential clients.

In 2007, however, CDC made a €3.5m commitment to Access Holdings, a private equity investment vehicle that specialises in microfinance loans to entrepreneurs in developing, emerging and transitional countries that are member states of the World Bank. Thanks in part to CDC's capital injection Mr Wellington secured a first loan of US$800 from Access Bank Liberia, enabling him to finance his stock and increase his sales.

With rising income after the first loan and an excellent repayment record, Mr Wellington was later granted a repeat loan of US$1,400 for a longer maturity. This enabled him to buy more shovels and wheelbarrows for his workforce, which has since increased from 10 to 35. He recently opened a third production point in Sinkor, Monrovia, and is able to purchase higher quantities of cement at a lower price.



> "Access Bank Liberia has helped me to grow my business and gave me the confidence to think bigger."

## Addy's story

Having sold soft drinks for a couple of years in her community, Addy Nyemah started to move into the less volatile and more profitable business of used bed sheets in Ma-Juah Market (Monrovia). Her business involved buying used bed sheets, cleaning and refurbishing them, and putting them back on the market at a cheaper price than new bed sheets. At first she could only sell a small quantity of bed sheets, but the money generated from her business allowed her to raise her children, aged 4 and 6 years old, and send them to school. Unfortunately, it was not sufficient to save for the future or substantially expand her business.

Thanks in part to CDC's investment into Access Holdings, Ms Nyemah received a loan of US$350. She increased the number of items on sale for customers and started to sell laces and new curtains with higher margins.

A few months later she also opened a savings account with Access Bank and deposited the money she had earned for her family. Today, Ms Nyemah has a solid base of regular customers and a stable source of income.

## About microfinance

Microfinance promotes micro entrepreneurship and enables people at the 'bottom of the pyramid' to develop sustainable businesses. Women in particular are traditionally well-served by the industry.

Microfinance Institutions (MFIs) provide access to credit to the rural and urban unbanked in developing countries, and are often the only alternative to moneylenders. CDC has invested in these institutions through specialist microfinance investment funds that promote and adhere to responsible lending practices.

In 2010 the microfinance industry in India was criticised over alleged over-lending and aggressive collection practices by some microfinance lenders in the state of Andhra Pradesh. As the sector was unregulated, some lenders had allowed people to take out several loans that they were unable to repay, leading to problems of over-indebtedness.

The Reserve Bank of India has set up a sub-committee to provide a framework for regulation of the sector, and this is expected in 2011.

CDC will follow the recommendations and legislation, but already has in place commitments from all its fund managers, including those with microfinance investments, to adhere to the CDC Investment Code and operate by our environmental, social and governance principles. CDC has microfinance investments in Azerbaijan, Bangladesh, Cambodia, Cameroun, Côte d'Ivoire, Democratic Republic of Congo, Ghana, India, Kenya, Liberia, Nigeria, Pakistan, the Philippines, Rwanda, Sri Lanka and Tanzania.

## Investment data

- Fund manager: LFS
- CDC fund investment: €3.46m
- Access Holdings investment in Liberia: €4.03m
- Total deposits: US$3.42m
- Outstanding loan portfolio: US$4.41m
- Loans outstanding: 5,090
- 210 employees

"My customers like to see a home or business well-furnished and now, when they come to my shop, they know they will find the items they like."

# Alleviating poverty
## continued

01

### Mr Chendru of Chendru Traders in Thiruvallur:

"For the first time I sold a single product from another bio-tech company during 2007-08. But in 2008-09 when Sri Biotech told me about the wide range of bio-organic products I was thrilled. I did business of Rs. 5 lakhs (£6,800 approx.) in the first year and today my total business is 35 lakhs. Teeka Combi, Biospectra EM2 and Index are very good products. The quality is very good."

### Investment data

- > Fund manager: Rabo Equity Advisers
- > Invested 2009
- > Turnover: US$18.4m (April-December 2010)
- > EBITDA US$5.6m (April-December 2010)
- > 340 employees
- > Based in Andhra Pradesh

02

## Agribusiness
### Sri Biotech

In India, while other parts of the economy boom, agricultural productivity is declining, constraining the growth of the rural economy. Average agricultural growth has decelerated from 3.2% in 1980-92, to 2.4% in 1992-2003, falling to 1.3% in recent years*.

Part of the problem is that pests and diseases are responsible for almost 20-30% crop yield losses annually**. Indian agriculture therefore requires a significant use of pesticides, which has resulted in the deterioration in the soil condition and the overall bio-efficiency of land.

In 2009 CDC committed US$10m to the India Agri Business Fund, having agreed to an investment strategy to target businesses with potential to alleviate rural poverty. In 2009, the fund manager invested US$8.9m in Sri Biotech Laboratories India Limited (SriBio) a company that specialises in the business of manufacture and sale of organic agricultural treatments (biologicals and bio organics which are used for either crop protection or crop improvement).

Given their efficacy, the environmentally friendly products are priced favourably against the chemical-based competitor products whose excessive use leads to pesticide contamination, depletion of soil microflora and soil erosion. The products manufactured by Sri Biotech are largely derived from living organisms (algae, bacteria etc) and plant extracts and therefore help restore some of the soil properties.

Sri Biotech is one of the few companies that has successfully developed technologies for low cost mass production of various organic bio-control agents that tackle agricultural viruses, bacteria, fungi and insect-related problems. In addition, the company also sells enriched manure, micro nutrients and seeds.

Between 2009 and 2010, thanks to the fund's investment, Sri Biotech has expanded considerably, enabling thousands more farmers to benefit from its sustainable crop protection and improvement products. The company now has a presence in 12 states of India, including some poor states such as Chattisgarh, in the process increasing the size of its dealer network from 1,000 to over 3,000 dealers.

### Venkata Raju, a farmer in Chipurupali:

"In my groundnut crop, the first time I used Biospectra EM2 the yield increased by 10%. I also have 20 acres of mango. I convened a farmers' meeting to learn more about Sri Biotech products' impact for mango farming... We established DS Plus, Calyx and successfully propagated the use of safe, green products instead of chemicals. The results are extremely good."

*Source: World Bank
**Source: Sri Biotech

03

04

## Community impact

### Savcio

The South African economy suffered in the 2008-09 financial crisis due to impacts on demand and on commodity prices, with a disproportionate effect upon the poor. As the country emerges from the downturn it is vital that people are given new employment opportunities and training.

CDC has capital invested in several businesses in South Africa in a variety of sectors, and will typically encourage these companies to adhere to Broad-Based Black Economic Empowerment legislation, particularly in regard to the provision of training.

One such company is Savcio, in which CDC's fund manager Actis has invested more than US$38m. The company is an industrial business specialising in repair services and maintenance for rotating electrical equipment and transformers.

There is a widespread misconception that there is a lack of qualified engineering candidates in South Africa. In fact there is an abundance of unemployed graduates. The problem is that they struggle to get jobs because they lack experience. Savcio, recognising this problem, created a training programme for graduates to provide the practical experience necessary to increase their chances of employment.

The company has an educational bursary programme for dependants of the lowest income group of Savcio employees. Savcio also supports maths and science in disadvantaged schools and employs seven tutors assigned to various township schools.

In 2010 Savcio began an HIV/AIDS education and training programme at the Ekukhanyeni Combined Mission School. The company also runs an HIV/AIDS employee support programme offering voluntary testing and counselling. Employees are also helped to register with government health programmes. There is high employee participation in the scheme and Savcio is making a valuable contribution to help tackle some of the stigmas associated with HIV and AIDS.

Savcio has an integrated approach to Safety, Health, Environmental and Quality management that is sector-leading within South Africa. Since 2007, 11 out of 12 of Savcio's operations have received four or five stars (out of a possible five) in health and safety audits.

05

## Investment data

- > Fund manager: Actis
- > Invested 2005
- > 1,787 employees

01 Sri Biotech makes organic treatments for crop protection and improvement in India

02 Technologies have been developed for low-cost mass production to benefit poor farmers

03 Broad-Based Black Economic Empowerment legislation improves training opportunities

04 Savcio is an industrials business

05 Health and safety audits are part of Savcio's integrated approach

# Alleviating poverty
## continued

### Agribusiness
#### Madagascan Lychee Export (MLE)

Madagascar is one of the poorest countries in the world, with nearly 70% of its population living below the poverty line. It is ranked 143 out of 177 countries on the UNDP's human development index. Moreover, it is ranked 140 out of 183 on the World Bank's ease of doing business index, making it even harder for businesses to flourish and drive economic growth.

CDC committed €7m to the I&P Capital II fund in 2007, seizing the opportunity to start putting its capital to work in Madagascar. With offices in the Madagascan capital Antananarivo, I&P has expert knowledge of the needs and opportunities of the local economy.

In September 2010 I&P invested €1m in MLE, a lychee export station business based in the port of Toamasina. 80% of people in Madagascar live in rural areas, many of whom depend on the lychee gathering season to sustain their lives each year. According to the Horticultural and Technical Center of Toamasina, the annual lychee production involves over 6,000 workers in export stations, 3,000 collectors and over 20,000 farming families spread along 800 km on the east coast.

Although the lychee picking season lasts only from November to January each year, it's estimated that farming families would earn 80% of their annual revenues from the collection of more than 23,000 tonnes of lychees.

In total this year MLE recruited 925 operators (of which 73% were women) and 45 executives. This is in addition to the indirect employment provided to the gatherers who pick the fruit and sell it on to the collectors, and then the export companies.

CDC invested via I&P in 2010 and the fund manager is working with the management to improve the governance and social standards to which it operates. This is part of a strategy to improve the structure and management of the company, which in the long term will increase capacity, employment opportunities and local tax revenues.

### Investment data

> Fund manager: I&P Management

> €1m invested 2010

> 982 employees

> Based in Madagascar

#### Sylvana, a 38 year-old collector, said:

"I have been working for MLE for 10 years. The 2010-11 collecting campaign lasted one week, I did five round trips to the bush with a rented van, going up to 170-200 kilometres far from downtown Toamasina to find some fruit. I work for a company which extracts essential oils, but I took some days off to collect the fruit. Even though some years are less profitable than others, I will not stop working as a collector since it represents 20% of my annual income."

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01 Workers sort and
02 pack the lychees

03 Freshly-harvested lychees

04 Preparing lychees for transportation

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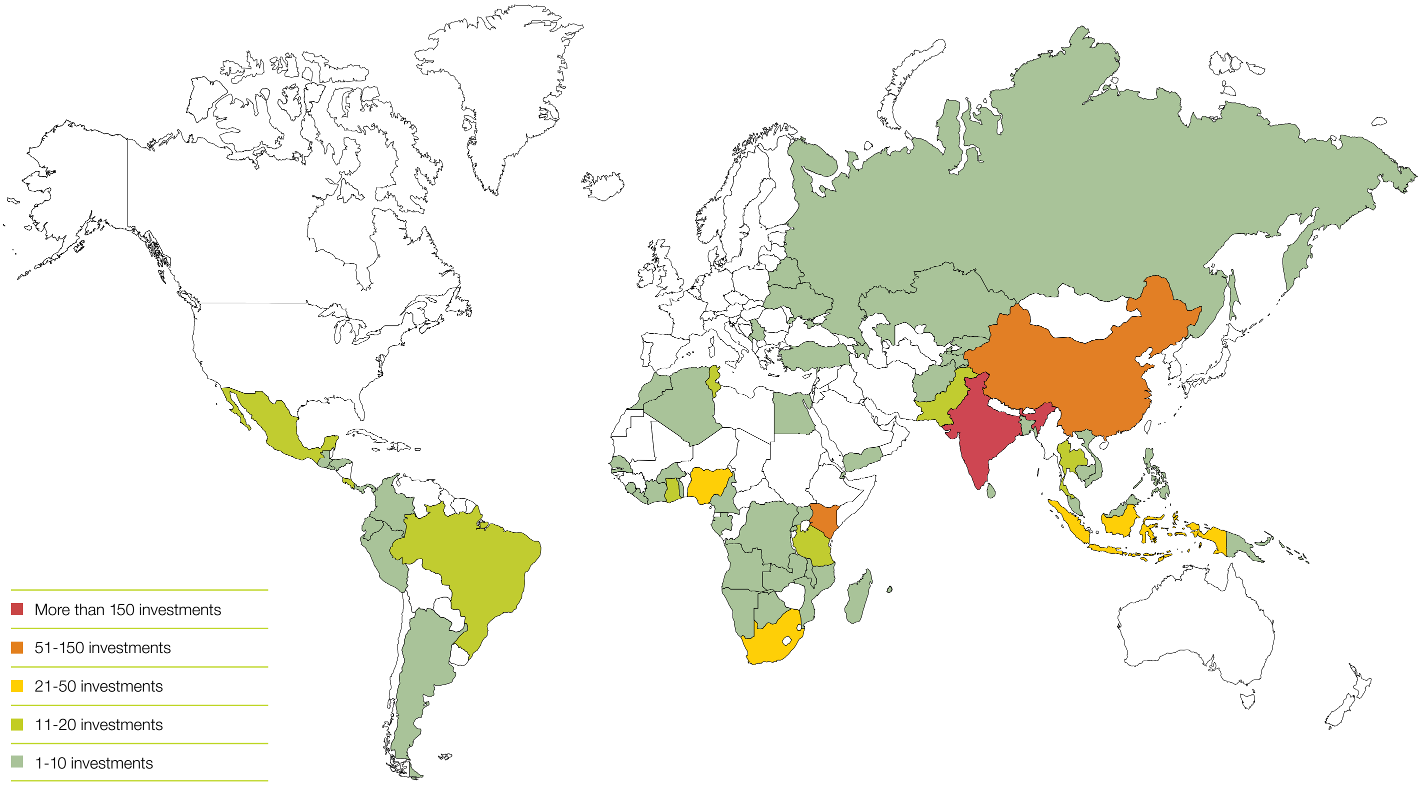
## CDC's investments by year end 2010: 930 investments in 70 countries




## Professor Ajay Shah

If you've got 5,000 people living in a way that's disconnected from markets then they're just living in the stone-age. What is absolutely crucial is that connectivity. And then suddenly you see all kinds of opportunities because wages are lower in such places. Entrepreneurs think of running a business where they'll produce something there and take it back. Ideas start flowing when you have connectivity of people, of telecommunications networks.

So it's really a transformative thing that you have a place that is cut off, and then the first roads come along, the first mobile companies come along, the first internet connectivity comes along. And within a few years the place is completely transformed.

National Institute for Public Finance and Policy, New Delhi

## Key facts

**92%**

of new investments from commitments made under the current Investment Policy were in low income countries

**84%**

of new investments from commitments made under the current Investment Policy were in sub-Saharan Africa

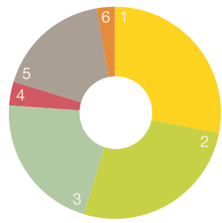
**139,000**

direct jobs provided by investee companies in sub-Saharan Africa

**214,000**

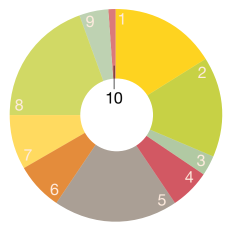
direct jobs provided by investee companies in India

## Direct employment by region 2010




1 China **224,000**
2 India **214,000**
3 Other Asia **171,000**
4 Latin America **26,000**
5 Sub-Saharan Africa **139,000**
6 North Africa **22,000**

## Direct employment by sector




1 Agribusiness and food **129,000**
2 Consumer services **123,000**
3 Education **24,000**
4 Extractive industries **47,000**
5 Financials **152,000**
6 Healthcare **56,000**
7 ICT* **66,000**
8 Industrials **155,000**
9 Infrastructure **36,000**
10 Real estate **8,000**

*Information, communications and technology

# Mobilising capital

Businesses in poor countries require billions of dollars for investment. By demonstrating good returns alongside improving standards in environmental, social and governance matters, CDC acts as a catalyst for other investors. Progress is being made but there is a long way to go.

01 Patient risk capital is essential for businesses to grow

02 Equity Bank focuses on the low income market in East Africa


02


01

## Helios Investment Partners, Africa

Entrepreneurs in sub-Saharan Africa have always struggled to access long-term, patient investment capital. Private equity, a good source of this capital, is still a small and nascent market in the region, compared to both developed and other emerging markets. Even at the peak in 2007-08, fundraising in sub-Saharan Africa was less than 1% of that in the US.

One fund manager that has successfully raised capital and invested capital in sub-Saharan Africa is Helios Investment Partners. CDC first supported Helios in 2006, coming on board as the biggest equity investor into Helios Fund I with a US$50m commitment. CDC also worked closely with the manager prior to investing to fine-tune their investment strategy.

Since then, Helios has made several successful investments, including Equity Bank and Helios Towers Nigeria. Equity Bank is a Kenyan bank providing small and medium enterprise finance and financial services to the underserved low income market in East Africa. Helios Towers Nigeria is the first independent mobile phone tower operator in Nigeria, providing mobile coverage to both urban and rural areas.

With a good financial track record Helios began fundraising for a second fund in 2008 and set a target fund size of US$750m. However, shortly after the commencement of fundraising the global financial crisis hit and a general lack of liquidity in the market plus risk aversion meant that raising capital from other investors became significantly more difficult than first anticipated. In fact, the difficulty of the fundraising market in general led CDC to conclude that this fund would fall short of its target, which could have potential implications for the team and strategy. Patience and flexibility were required to help Helios attract other investors.

Due to its rigorous approach to fund investment, CDC is considered a leading investor in the African private equity fund space by many other potential investors, including other development finance institutions (DFIs). Therefore CDC's commitment of US$75m to Helios II, together with a US$60m commitment from the International Finance Corporation (IFC), provided a strong signal to the market. Together with the IFC and other early investors, CDC agreed to have a first close at US$200m instead of the original US$250m previously agreed. This allowed Helios to complete an investment in a business that the team had been working on for some time.

In 2010, Helios Fund II reached US$455m of commitments plus approval for US$100m of borrowing from the USA's Overseas Private Investment Corporation. It is expected to reach a final total of US$700m, a significant achievement given the scarcity of capital available for African fund managers.

This means that with CDC's support and upfront commitment of US$75m Helios will have raised US$8 for every US$1 invested by CDC. This is a 100% increase from Fund I, when Helios raised US$4 for every US$1 invested by CDC. 70% of the equity capital raised to date in Helios Fund II is from private investors, again a significant achievement for a fund focused solely on sub-Saharan Africa.

If Africa is to establish a thriving private sector it is vital that fund managers such as Helios succeed in attracting commercial capital to the continent. As well as providing a substantial early commitment CDC also introduced Helios to a number of potential investors and has provided references throughout the fundraising period.

Helios intends to continue investing equity capital in sub-Saharan Africa for the foreseeable future and is committed to helping other investment professionals establish themselves.

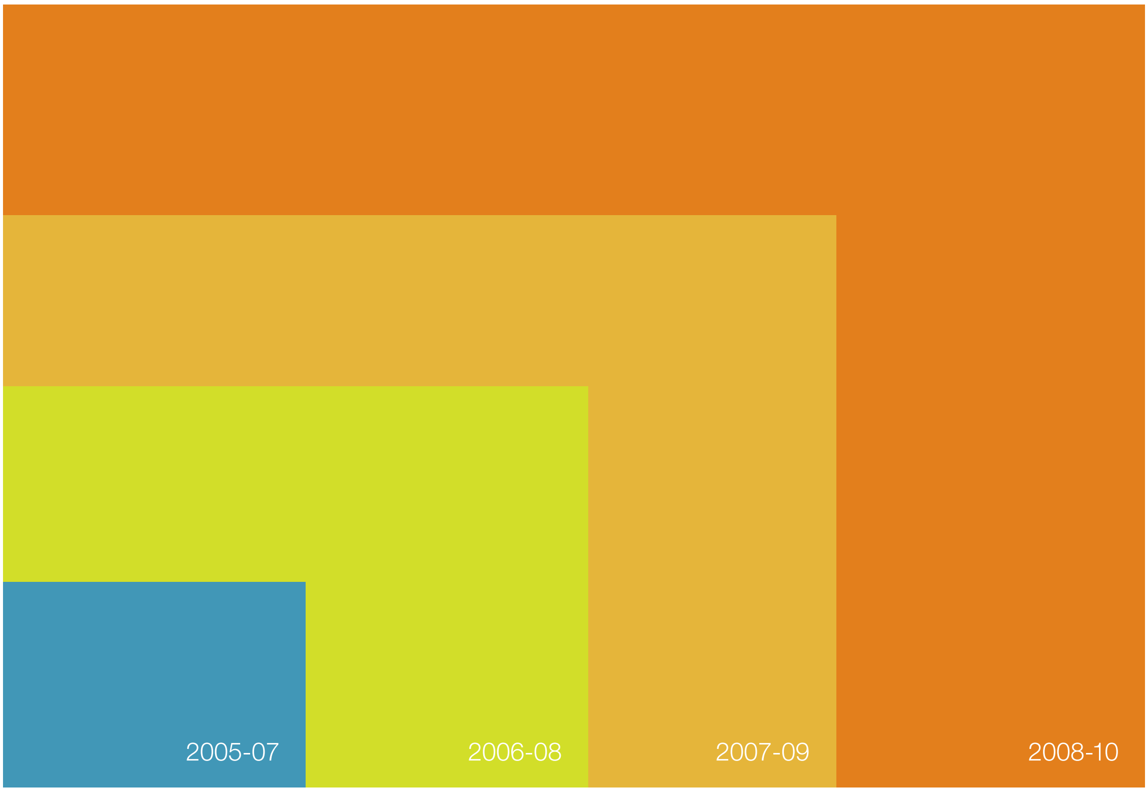
### Raising and closing funds

When fund managers ask investors to put their capital into a fund, their investment strategy will include a minimum fund size that they intend to meet. This allows investors to understand the rough proportion of the fund that their investment will represent.

As they commit to a fund, investors may stipulate that their investment should not exceed or fall short of a certain percentage of the total fund size. Such a stipulation protects an investor from being over-exposed to a fund or from being too small to have any influence.

As fundraising proceeds, the fund manager may not be able to attract as much capital as he/she had hoped for. This is frequently a problem for funds investing in developing countries. With total investment falling short of the target, the fund manager may then fall foul of the minimum/maximum percentage stipulations set out by the investors. In such circumstances some investors need to be flexible and increase their original commitment to help the fund reach its close. CDC has frequently done this.

# Mobilising capital
## continued




### CDC as a catalyst for other investors

**Three-year rolling mobilisation**

2005-07 **143%**

2006-08 **194%**

2007-09 **276%**

2008-10 **378%**

One of CDC's prime objectives is to mobilise third party capital investment in emerging markets by demonstrating investment success to other capital providers. This is measured on a three-year rolling basis. The target for 2008-10 was 200%, which CDC exceeded.

### Renewable Energy Asia Fund, Asia

Following the collapse of Lehman Brothers in 2008, investors became extremely risk-averse, making capital for investment scarce, especially for developing countries.

CDC entered the financial crisis with a strong balance sheet due to prudent management in preceding years. The downturn didn't diminish the need for capital in poor countries and fortunately CDC continued to invest throughout the period.

As the financial crisis unfolded, Berkeley Energy launched the Renewable Energy Asia Fund (REAF), an investment fund targeting green energy in Asia. The first time fund team had solid individual experience in the sector, but unfortunately the fundraising climate was far from favourable. CDC recognised the challenges, and decided to help the REAF team raise the capital they needed to get started with a €10m commitment.

A two year period of working together started in late 2007, with CDC playing a major part in bringing REAF to a first close in December 2009. As TC Kundi of Berkeley Energy says: "CDC was at the forefront of key milestones of the fund's development. It was the first investor to commit to the fund, and hosted and led the initial fund negotiations. During documentation, CDC was prompt and articulate in its recommendations and preferences, leading to efficient negotiations. CDC's proactive approach and reputation as a thought-leader undoubtedly played a critical role in the successful launch of the fund."

In 2010 CDC committed a further €5.0m to the fund alongside new investors, taking the fund's commitments to €76.8m. The increased commitment catalysed further investment from other investors that had been constrained by the total shareholding in the fund that they could take. REAF has now committed to its first deal in India, investing into wind energy developer PWEPL, which is working towards the financial close of its first 100MW wind farm in Maharashtra.

Part of CDC's mandate is to encourage other investors to put money into developing countries. Also important, however, is the role CDC plays in helping a fund manager shape the proposition, overcome legal hurdles, and effectively to act as a stamp of reassurance for other investors. In this case CDC committed a total of €15m, but by working with REAF as they went through the fundraising process CDC also helped secure a further €61.8m from other investors, notably several European DFIs.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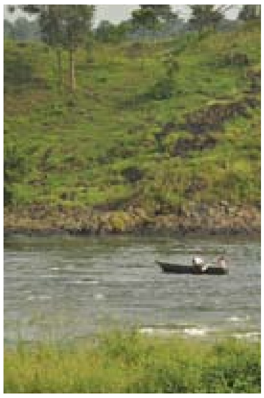
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## Investment data

> Invested 2010

> Africa Sustainable Forestry Fund, GEF

> Sub-Saharan Africa

## The GEF Africa Sustainable Forestry Fund

### Africa

CDC views forestry as a strong sector for investment in Africa. Timber offers consistent long-term returns and has side benefits such as preserving biodiversity, protecting against soil erosion and the potential to generate income from carbon trading and sequestration. The sector also provides employment and training opportunities in rural areas.

Like many sectors in Africa however, forestry struggles to attract capital. Investors are often reluctant because managing forestry projects in Africa is challenging. Managerial skills are in short supply, land tenure issues are challenging, forest fires are common and there can be sensitive issues to overcome related to local populations' access.

In fact there is so little investment in forestry that when CDC decided to put its capital to work in this sector, we found no fund managers making such investments. In 2008 CDC therefore issued a request for proposals, asking fund managers to submit plans for a forestry-focused fund in sub-Sarahan Africa. CDC undertook to act as a cornerstone investor and get the fund started with a substantial sum.

A fund manager, GEF, was selected and in early 2010 CDC committed US$50m to the GEF Africa Sustainable Forestry Fund (ASFF). The fund achieved a first close in May 2010 at a value of US$83.8m, and the fund manager was able to attract substantial further investment throughout the rest of year, having now raised US$127m. ASFF has now started to make investments.

The ASFF story is a good example of how CDC's robust approach and strong reputation can catalyse other investors to commit their capital. The other investors include DEG, IFC, Proparco, FinnFund and MAEC. There is also some commercial interest in the fund.

01 Electricity pylon

02 Rivers can provide renewable power resources

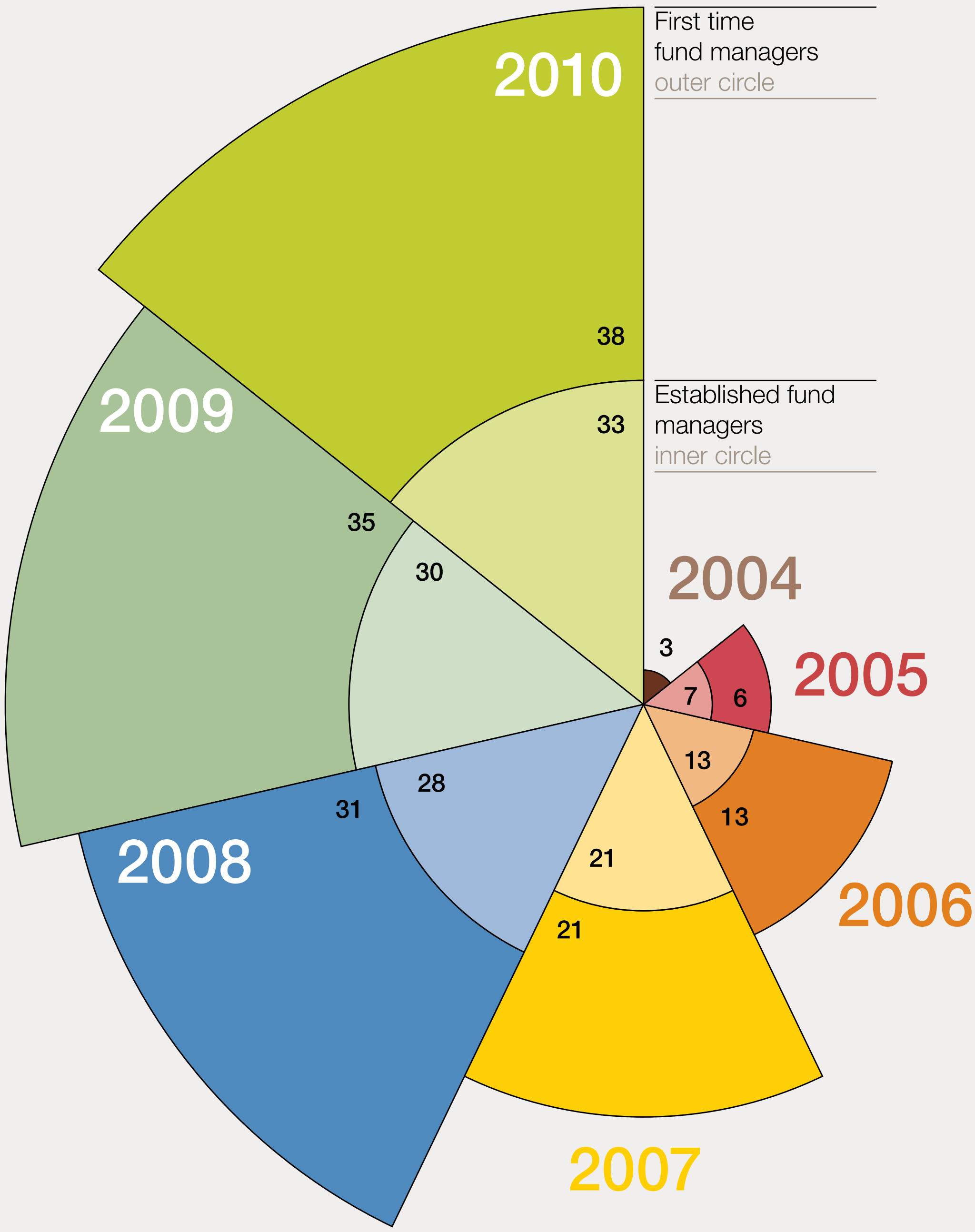
03 Tree nursery in sub-Saharan Africa

04 Saplings are grown in greenhouses before being planted

05 Farmed trees awaiting transportation to sawmill

# Developing capital markets

The local investment profession in poor countries, especially sub-Saharan Africa, is significantly under developed. CDC contributes to sustainable development by supporting and nurturing local people to play their part in investing in their countries' economic growth. We help first time investment managers set up and build their all-important track record.



## Interview with Tom Cairnes, founder of Manocap, a fund manager in Sierra Leone

### Why did you decided to establish a fund to invest in Sierra Leone?

We launched the Sierra Investment Fund for developmental and financial reasons. We saw significant opportunities for growth and recognised that the right investment would create prosperity for local people as well. We launched an equity fund specifically because this type of finance is really missing in Sierra Leone.

### Aside from the Sierra Investment Fund, where else would a local entrepreneur turn for investment?

The first place would be self-financing, so people would use their own savings or borrow from friends and family. That's not an option for most people so the second source of finance would be banks, but they tend to lend at roughly 30% interest. That's a really prohibitive rate of interest for any company, especially a small business. So generally speaking there are too few sources of useful capital.

### What are the challenges of investing in Sierra Leone?

The process of investment is the same as in the UK or anywhere else. We're looking for a good business opportunity, then we're looking for a strong management team and we then apply our analysis to come to a decision.

One difference is that there are more operational challenges, so as an investor we're much more hands-on in helping the investee companies overcome day-to-day problems.

Another difference is the limited availability of strong middle management. Good managers are made, not born, so the 15-year civil war curtailed the development of a generation of professional managers. Manocap is addressing this issue by investing in local talent, and also by creating employment opportunities for the diaspora to return home and find good jobs in Sierra Leone.

### Aside from providing capital and advice, how else does Manocap contribute to a business's success?

Pre-investment, when we look at businesses there are lots of reasons why they aren't ready for investment, such as a lack of good accounting systems. When we invest, we say that there will have to be transparency, proper systems and help them see the benefits of this. So we help move a company to a more formal, professional basis.

### Can you describe how CDC helped your fund?

The evolution of our fund is that we started only with private sector investors, which was a small group of high net worth individuals, who seeded us. We then had a second round of investment where CDC came in, and I think that the stamp of approval that CDC provided allowed us to scale up the amount of capital that we had. We went from US$6m to US$22.5m.

Pre-investment, they spent a huge amount of time helping us improve our own internal processes, particularly around environmental, social and governance (ESG) matters and reporting. Post-investment, CDC is keen to ensure that our investment decisions meet those ESG standards, and they require us to report regularly on our progress. Moreover, they have introduced us to a wider network of other investors with whom we share investment ideas and identify co-investment opportunities.

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### Investment data

- > Fund size: US$22.5m
- > Investments: Ice Ice Baby, Sierra Fishing Company, Splash
- > Investment professionals: 5
- > Non-investment employees: 6

01 The Manocap team in Sierra Leone

02 The Sierra Fishing Company

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# Developing capital markets
## continued

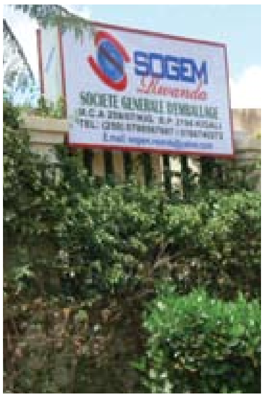
Apart from investing capital, CDC plays a practical role in helping fund managers structure their funds, refine their investment approach and establish links with potential investors. CDC's know-how has been built up over 60 years of investing in developing countries.

01 The SOGEM facility in Kigali, Rwanda

02 Travelling to work

03 Making paper bags for shops in Kigali

04 Promising Rwandan businesses often struggle to access finance



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### GroFin, SME challenges in East Africa

Like anyone with an entrepreneurial spirit Fabrice Shema knows how to spot an opportunity. So when the Rwandan government introduced legislation in 2006 banning plastic bags he quickly decided he could start a successful business manufacturing paper bags for shops in Kigali.

Unfortunately, Rwanda doesn't have the same financial infrastructure that many developed economies enjoy. Without a good base of domestic savings, and few venture capitalists or pension funds looking to make unquoted investments, in Rwanda entrepreneurs are constrained by a severe lack of risk capital.

Fortunately Fabrice was able to secure financial backing from GroFin, a fund manager that invests in small and medium sized enterprises (SMEs) in East Africa. CDC committed US$3m to the GroFin East Africa Fund in 2005, recognising the importance of establishing capital markets in countries like Rwanda. As well as committing capital to GroFin, a first time fund manager which was supported by the Shell Foundation and which had no track record of investing in East Africa, CDC helped the fund to get off the ground by committing all of its capital at the first close in 2005. CDC also helped GroFin attract seven other investors by the time of final close in 2006.

Fabrice contacted GroFin in 2008 and secured start-up capital of US$180,000 for his business, SOGEM. He used the money to buy manufacturing equipment, secure premises and take on staff. As a shareholder with a stake in the business, the GroFin team also worked closely with Fabrice to help his business become successful and profitable. Fabrice is clear why investment is important: "With investment you have to share the profit, you have to share the risk, so you have to work for that."

Putting capital into small businesses in developing countries does involve risk and success is not guaranteed. CDC's portfolio companies frequently encounter difficulties that are difficult to resolve. Sadly for Fabrice, after two promising years of trading a competitor entered the Rwandan paper bag market offering better prices and SOGEM's customer base was quickly eroded. Despite good operational and financial management systems, without an order book the business was forced to close in late 2010.

The early years of any business can be precarious which is why patient risk capital is required. For this reason CDC has backed GroFin since 2005, helping establish a source of long-term local currency finance in four nascent capital markets in East Africa. In 2010 GroFin invested CDC's capital in over a hundred businesses, giving more entrepreneurs like Fabrice the chance to get started. While some will fail many more will succeed, creating jobs and economic growth.

External factors caused this business not to reach its full potential. However, GroFin's approach of combining flexible finance and support has proven effective in assisting the majority of their businesses in growing or navigating the early years of operation. Building on the success of its East Africa Fund, GroFin has since gone on to raise a successor fund with a pan-African reach. The GroFin Africa Fund also invests in SMEs and is the largest fund of its kind dedicated to this market.

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# Developing capital markets
## continued

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01 Fresh fish at the Agora supermarket in Dhaka

02 Workers at a
03 garment factory

04 Garment machinery

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### The first fund in Bangladesh

Bangladesh is a low income country with a gross national income per capita of approximately US$580*. The country continues to be a heavily agrarian economy. As with most other South Asian countries, Bangladesh capital markets are still at the developmental stage. For several years CDC has been keen to invest capital to help unleash the country's entrepreneurial spirit.

In 2010, CDC made a US$10m investment in the first private equity fund dedicated to Bangladesh, the Frontier PE Fund. The fund will be used to inject growth capital from CDC into promising Bangladeshi businesses to support good governance and help them grow for future stock market listing.

The Bangladeshi Securities and Exchange Commissioner made regulatory changes in 2010 to encourage private sector entrepreneurs to list their large and profitable companies locally at fair prices. This will increase investor choice, improve liquidity and attract institutional investors.

As well as the capital from CDC, Frontier raised US$78m from development finance institutions (DFIs) and commercial investors, of which 55% came from the latter group. The fund will make long-term investments in privately-owned, family companies in Bangladesh that are looking to expand and reach new markets. Its equity investments will range between US$2m and US$15m and target businesses in the country's textile, retail, manufacturing, pharmaceutical, IT and services sectors.

Frontier is run by a first time fund manager, Brummer & Partners Asset Management (Bangladesh) Ltd, and has raised capital from other investors such as the International Finance Corporation (IFC), Norfund, the Norwegian DFI and FMO, the Dutch DFI. Frontier Fund has already started to make investments, including in a supermarket chain in Bangladesh.

Khalid Quadir, CEO of Brummer & Partners in Bangladesh, said: "The Frontier PE Fund is providing a new way of financing Bangladeshi entrepreneurs and companies. Having CDC as a partner in Frontier allows us the potential to invest in even more businesses and make the most of the untapped economic potential of Bangladesh."

CDC made its first investment in Bangladesh in 1987 but until now has not made any private equity fund investments. The investment in the Frontier Fund should help develop the Bangladeshi capital markets and boost economic development. CDC has also worked closely with the fund to ensure good governance practices, as well as environmental and social standards, are adhered to and improved in investee companies.

+ At the end of 2010 there were just 218 listed companies on the Dhaka Stock Exchange, Bangladesh's main stock exchange, with the top 20 listed companies representing 45.5% of total market capitalisation**.

+ Currently foreign investor ownership of the Dhaka Stock Exchange is less than 2%.

*Source: Dhaka Stock Exchange
**Source: World Bank

# ESG

## Environmental, social and governance standards

It's not enough to just invest in business in developing countries.
The businesses where CDC invests should also act responsibly and sustainably.


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CDC believes that operating to high environmental, social and governance (ESG) standards is a fundamental part of business success. After all, companies that degrade their environment or engage in corrupt practices are not sustainable in the long term.

CDC's Investment Code, to which CDC's fund managers must sign up, requires portfolio companies to continually assess, monitor and improve ESG standards. In fact, when CDC's fund managers first invest, these companies frequently do not have such systems in place and consequently have potential ESG issues that need attention.

To help fund managers and investee companies improve ESG standards over time, CDC has developed a series of guidelines, policies and toolkits.

01 Fund managers
02 discuss the new toolkit at the Mumbai workshop

03 CDC's new ESG Toolkit for Fund Managers

### Rollout of CDC's new toolkit on ESG

In September 2010, CDC published its new toolkit on ESG for Fund Managers, a document designed to show fund managers how effective management of ESG can add value at all stages of the investment process. The toolkit contains a range of best practice tools and appendices that address specific aspects of ESG. It includes considerations for different sectors and regions, a guide to leading ESG international reference standards, as well as a discussion of gender and climate change related materials.

Since publication CDC has completed nine workshops on the new toolkit in eight cities worldwide, including Shanghai, Lagos, Bogota, São Paulo, Johannesburg, London, Mumbai and Washington DC. All CDC's fund managers were invited and 45 fund managers attended at least one ESG workshop.

The workshops were also well attended by individuals from other European Development Finance Institutions, the International Finance Corporation and the Department for International Development. Sessions introducing the toolkit have been held at various conferences on responsible investing, and CDC's investment teams have also received training on how to use the toolkit.

### Workshop feedback

**94%**

of participants rated the workshops as 'excellent' or 'very good'.

"Excellent seminar: The best/most comprehensive/ most useful toolkit I have ever seen on this complex issue of ESG"; a participant at the Johannesburg workshop.

"The workshop is very useful and definitely serves as a training ground for our team as well as our investee companies!"; a participant at the Shanghai workshop.

"I like the new approach and potential value creation of this ESG approach"; a participant from the São Paulo workshop.

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Visit www.cdcgroup.com /CDC-publications.aspx to download CDC's ESG Toolkit for Fund Managers

# The ESG journey

By operating in some of the toughest investment environments in the world it is inevitable that CDC will encounter businesses that need to improve ESG standards. The Investment Code to which CDC's fund managers must adhere does not forbid investments in companies that do not meet ESG best practice standards. In fact, through fund managers' successful application of its Investment Code, CDC believes its capital can help businesses on the journey to responsible, sustainable operations.

CDC gives fund managers the tools to help businesses identify potential ESG issues and put systems in place to improve and manage them. This process begins before an investment is even made, with potential investee companies rated for ESG risk.

Following investment, fund managers will then work with the company to improve ESG standards, frequently adding financial value to the business in the process. The typical journey is outlined here, with examples on the following pages.

## Step 1
### Ensuring legal compliance

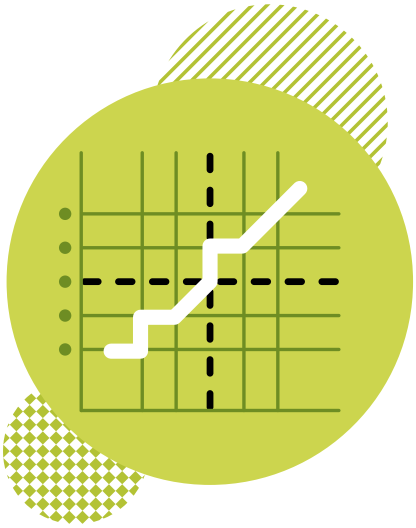
As a first step CDC requires all portfolio companies to ensure legal and regulatory compliance. This is not always the case when an investment is first made, but fund managers are required to swiftly identify any compliance issues and implement a process to correct them. A company that intentionally or unintentionally breaches the law can be shut down by the authorities, resulting in the loss of jobs and undermining the success of an investment. This risk is highest in sectors with inherently high ESG risks and where reputational issues are common such as in extractive industries, construction, manufacturing and pharmaceutical companies.

## Step 2
### Managing risks

Often simple legal and regulatory compliance does not ensure all risks have been addressed, particularly where local regulations lag behind international standards. At the initial stage of risk assessment it is sensible to look at the generic risks associated with the industry or sector of operations. CDC has frequently found this exercise is useful to get a sense of the key risks, both internal and external. Thereafter ongoing engagement with the company will provide additional insights on the range and extent of actual risks it needs to manage.

## Step 3
### Identifying oppportunities

CDC asks fund managers to put improving ESG at the heart of their investment strategy. This is not just ethical, it is also good business practice from a financial point of view. Fund managers are given tools and training by CDC to help them identify where improving ESG standards will also have a financial benefit for the business in the long term. The process includes staff interviews, competitor analysis and interrogating regulatory trends. CDC's experience across its 930 portfolio companies shows that a range of measures will result from the process, be it increasing wages to attract better staff or an energy efficiency drive to reduce costs.



## Step 4
### Managing the process

As with any business goal it is important to understand how a company will achieve its objective. Given the frequent relative lack of general processes, policies and management systems in emerging markets, it is doubly important to establish and develop ESG management systems in portfolio companies. CDC has developed an ESG management system that it is available to fund managers and investee businesses to help them address internal systemic challenges. The key components of the CDC ESG management system include: policies and processes; roles and responsibilities; ESG performance management; reporting; and stakeholder management.

## Step 5
### Integrating ESG into corporate strategy

Over the long term, ESG standards should be performance managed as part of every business area. All ESG initiatives, from simple compliance to opportunity spotting should be integrated into the corporate strategy. Specifically, there should be a continuous process in place to identify potential opportunities and steadily improve results. These could result from regulatory reforms, loss in market share, changes in market preferences, local demands and community pressure or a range of other causes. By embedding steps one to five in systems, roles and reward systems a company will improve both ESG standards and its financial returns.

# The ESG journey
## continued

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Step 1

### Ensuring legal compliance

At a Ghanaian biscuit manufacturer, CDC's fund manager discovered that workers were being checked for HIV/AIDS without their knowledge or consent during medical screenings provided by the company. CDC's fund manager explained to these companies that HIV/AIDS screenings have to be voluntary and confidential.

A financial institution in Togo strengthened its internal controls by improving its anti-money laundering and anti-bribery and corruption policies to match international best practice.

Prior to the fund manager's investment in a Malaysian portfolio company, it emerged the company was retaining the passports of foreign contract workers for the duration of their contracts. CDC's fund manager recognised this contravention of International Labour Organisation standards and implemented a 100-day phase out plan.

Step 2

### Managing risks

A fund manager invested in an African supplier of lime and other industrial minerals at a time of changing environmental legislation and attitudes. The management team helped devise a strategy to improve standards throughout the company, and the company has achieved ISO 9001, ISO 14001* and OHSAS 18001 accreditations. It has also received the highest possible NOSA (National Occupational Safety Organisation) 5 star rating for its safety, health and environmental standards.

CDC's fund manager has also made financial provision for the rehabilitation of the areas from which lime products are extracted. Most of the waste the company produces is either sold commercially or recycled into a neighbouring cement processing facility. In the near future, carbon dioxide emissions will also be reduced by 60% through the introduction of new kiln machines.

*ISO ratings are international standards related management quality (ISO 9001), environment management (ISO 14001) and occupational health & safety (OHSAS18001)

01 Medical screening

02 Operations at an industrial mineral company

03 Fish processing operations

**04** Stock at a manufacturing company

**05** Construction
**06** workers
**07**

**08** Edward Kieswetter, CEO of Alexander Forbes

**09** Financial institution


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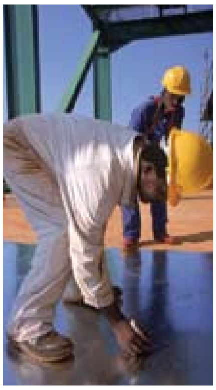
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07


09

Step
3

## Identifying opportunities

An Indian car and motorcycle auto-component supplier commissioned an energy audit which recommended a savings potential of 15% of the division's current emissions. Eight recommendations were pursued and 78% of the potential energy cost savings have been realised.

A tuna processor in Côte d'Ivoire has adopted EU regulations on fishing methods and sanitation conditions. It has also achieved ISO 9001 and ISO 22000** certification and is certified by the British Retail Consortium and International Food Standard. Such quality controls allow the company to be a major exporter to Europe and in particular to France.

**ISO 22000 specifies requirements for a food safety management system where an organisation in the food chain needs to demonstrate its ability to control food safety hazards in order to ensure that food is safe at the time of human consumption

Step
4

## Managing the process

A real estate fund manager developed a set of initiatives that aim at improving ESG practices throughout the broader African real estate industry.

+ Developing guidelines for green buildings: a comprehensive set of guidelines for architects, designers and builders.

+ Introducing international market standards: facilitating the introduction of international green rating schemes through partnerships with local Green Building Councils.

+ Ensuring health & safety: guidelines for managers, developers and construction workers on the health and safety systems to be implemented in all its developments.

+ Improving governance: requires partners to sign up to its ESG policies, which include undertakings on governance, business integrity and ethics.

+ Training: workshops and ongoing support as required in the implementation and adoption of green building standards.

Step
5

## Integrating ESG into corporate strategy

Working with the other Board Directors, fund manager Actis overhauled the Alexander Forbes' management and recruited a new Chief Executive Officer, Edward Kieswetter, in 2009. He started work at Alexander Forbes in 2010 with backing from the Actis-led Board to instigate cultural change within the organisation and introduce a mantra of 'doing the right thing'.

In his first year as CEO Mr Kieswetter, a former revenue and customs employee and a lay preacher, succeeded in settling a long-standing pension dispute to the satisfaction of all parties. While the settlement was financially costly to the business, both the Board and Mr Kieswetter firmly believe that acting in a responsible fashion has improved the company's reputation, as well as freeing up management time to concentrate on growth over the years to come.

# Developing infrastructure

The lack of sufficient power, reliable transport and efficient communications keeps developing countries in a cycle of poverty. Sub-Saharan Africa alone has an annual investment shortfall of US$50bn for infrastructure. Investment in infrastructure is a priority for CDC – and will remain so.

## Electricity in Tanzania

### Africa

In Tanzania, only one in seven people has access to electricity. Without power, a basic human necessity, development at all levels is severely constrained. Schools and hospitals cannot function, communication is limited and businesses struggle. For individuals it also means spending hard-earned wages on expensive, polluting kerosene to fuel basic paraffin lamps.

For example, until recently Songo Songo Island on the coast of Tanzania did not have access to electricity. The island therefore lacked basic necessities such as light and refrigeration, as well as being an area with limited economic opportunities.

Like many African states, Tanzania has vast untapped natural resources, but has been unable to exploit their potential. One reason for this is that developing countries often lack the investment capital that is needed to extract and transform fossil or mineral wealth.

In the 1960s a large gas field was discovered near Songo Songo Island, but it is only recently that the gas has been put to use. In 2007 CDC anchored Actis Infrastructure 2, a fund set up by Actis and CDC to invest in emerging markets infrastructure projects.

That gas is now processed on the island before being transported through a 225 kilometre pipeline to Dar es Salaam where it is used in the largest gas-fired power station in East Africa. Not only does Songas now generate approximately 30% of Tanzania's daily electricity needs, but in 2010 the company announced plans to double gas extraction to 90 million cubic feet of gas daily from the current level of 45 million cubic feet. This would allow 450MW of electricity to be generated, going some way to further alleviate power shortages in Tanzania.

Songas also provides a clean, reliable alternative fuel source in a country that has previously been heavily dependent on the importation of expensive heavy fuel oil. Thanks to CDC and other investors electricity is unleashing entrepreneurship across Tanzania, helping build the economy at all levels, from cottage industries to heavy industries.

## Lower-cost power

Songas has one of the lowest and competitive generation costs in East Africa. It sells its electricity to the grid at approximately 5.5 US cents per kWh (TSH65).

The Songas facility has substantially reduced operating costs for industry in Tanzania. Over US$1.8bn has been saved since commercial operations commenced in 2004*.

*Source: Songas

To find out more about Songas visit www.cdcgroup.com/2010review to watch a film about Songas and other infrastructure investments

## Impact on individuals

Cottage industries established on Songo Songo Island attest to how electricity changes lives. For example, Mohamed Ngemae has started a business selling frozen fish. He said:

"I decided to buy the freezer because the electricity here is very cheap. And there is a lot of fishing going on around here. It seemed to me that trading fish might be profitable in the long run."

01

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## Investment data

> Actis Infrastructure 2

> 2007 – present

> 2010 turnover: US$89.9m, a 13% increase on the previous year

> 2010 EBITDA: US$54.4m

> 2010 taxes paid: US$12.6m

> Tanzania

01 Village on Songo Songo Island

02 Extraction facility

03 Songas engineer at work on extraction platform

# Developing infrastructure
## continued

### Meet the driver

Before he started working as a Prasanna driver, Cheran admits he spent much of his time drinking and getting into trouble. Since starting at Prasanna five years ago, however, his life has settled down and his wages now support his wife, mother and sister with whom he lives in Indoor. Now a model employee, Cheran has since found his brother a job at Prasanna too.

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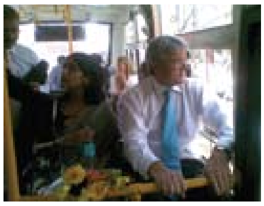


04

01 A Prasanna Purple bus

02 Cheran, a Prasanna Purple driver

03 04 Secretary of State for International Development, Andrew Mitchell, visits Prasanna Purple in 2010

## Transport
### Prasanna Purple

Transport demand in most Indian cities has increased substantially. This is due to both natural population increases and migration from rural areas and smaller towns*.

Ujjain in Madhya Pradesh has a typically poor public transport system that holds back economic development. When CDC visited Ujjain in 2010 one traveller told the team: "The tempos (private taxis) are terribly uncomfortable, the drivers are rude and they don't drive well at all. There's no timetable, they only leave when they're full. It's impossible to plan anything at all when you use them. It's really not acceptable for women either."

In 2008 CDC committed US$20m to AFP I, advised by Ambit Pragma, an Indian fund manager with experience of logistics and infrastructure services investments. Drawing on local knowledge and sector experience Ambit identified Prasanna Purple as having potential to transform city bus transport in several Indian cities.

Run by a family entrepreneur with over 25 years of experience in the inter-city bus business, Prasanna is building a business offering modern bus transport in several Indian cities. The capital from CDC is helping Prasanna expand to reach more cities and increase the frequency of its services.

In Ujjain, a Prasanna manager said: "Because of the bus system, transportation has improved a lot. This means people from outlying villages are easily able to come to Ujjain, so there is a lot more economic activity in the town."

Another passenger said: "A town will grow if it has good transportation. People are able to reach their destinations on time. Everyone can plan and be on time for work. The city becomes efficient and productive."

In 2010 Prasanna Purple now has more than 400 vehicles and over 1,500 employees, operating from a network of offices. Crucially, the bus company also has a healthy balance sheet, thus ensuring that the connections, service and jobs it provides will remain long after CDC has realised its investment.

Prasanna Patwardhan said: "Funding alone means nothing. We need a lot of help and support to grow and be successful and Ambit Pragma gave us that. Many investors are more concerned with financial gains."

*Source: State of environment report – India 2009

### Investment data

- Value: US$8.6m
- AFP I, advised by Ambit Pragma Ventures
- Invested 2009
- 1,500 employees
- Turnover: US$7.8m H1 FY 2011
- Based in Maharashtra, India

## Broadband in East Africa

### Wananchi

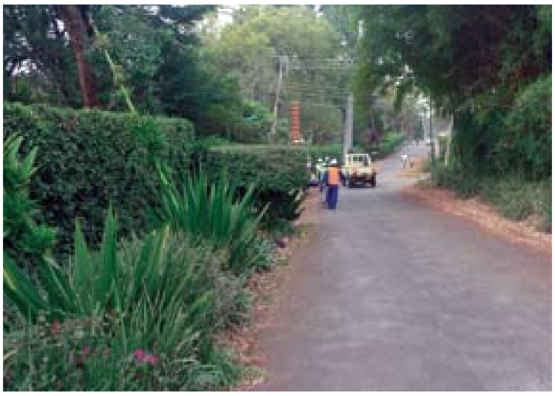
The development of an effective communications infrastructure facilitates economic activity, enables a country to attract investment and is a catalyst for growth.

While the rapid penetration of mobile telephony has considerably improved communications in many poor countries, access to broadband internet connections is still limited. For example, North American and European Union countries together account for nearly half of global subscribers while South Asia and sub-Saharan Africa contain less than 3%.

Furthermore, the World Bank* estimates that in low and middle-income countries every 10% increase in broadband penetration results in a 1.38% increase in GDP. CDC recognises the huge need for efficient and affordable broadband services in developing countries. The potential development impact is similarly huge.

Like many infrastructure projects, however, building a broadband network requires large capital investment. Emerging Capital Partners (ECP), a pan-African fund manager, is putting capital to work in this area. CDC made an investment in the ECP Africa Fund III, alongside other investors. In 2009 the ECP team identified Wananchi, a provider of triple-play services including broadband internet, multichannel cable television and voice telephony services. Wananchi has the brand name Zuku in Kenya and Tanzania, and services individuals, corporations, local government and NGOs.

05



06

**Households with a computer****

**5.5%**
Kenya

**1%**
Tanzania

**Households with working internet****

**2.2%**
Kenya

**0.1%**
Tanzania

**05** Wananchi engineers
**06** install and maintain
**07** connection infrastructure

07

*Source: World Bank
**Source: Research ICT Africa, ICT Sector Performance Review 2009/10

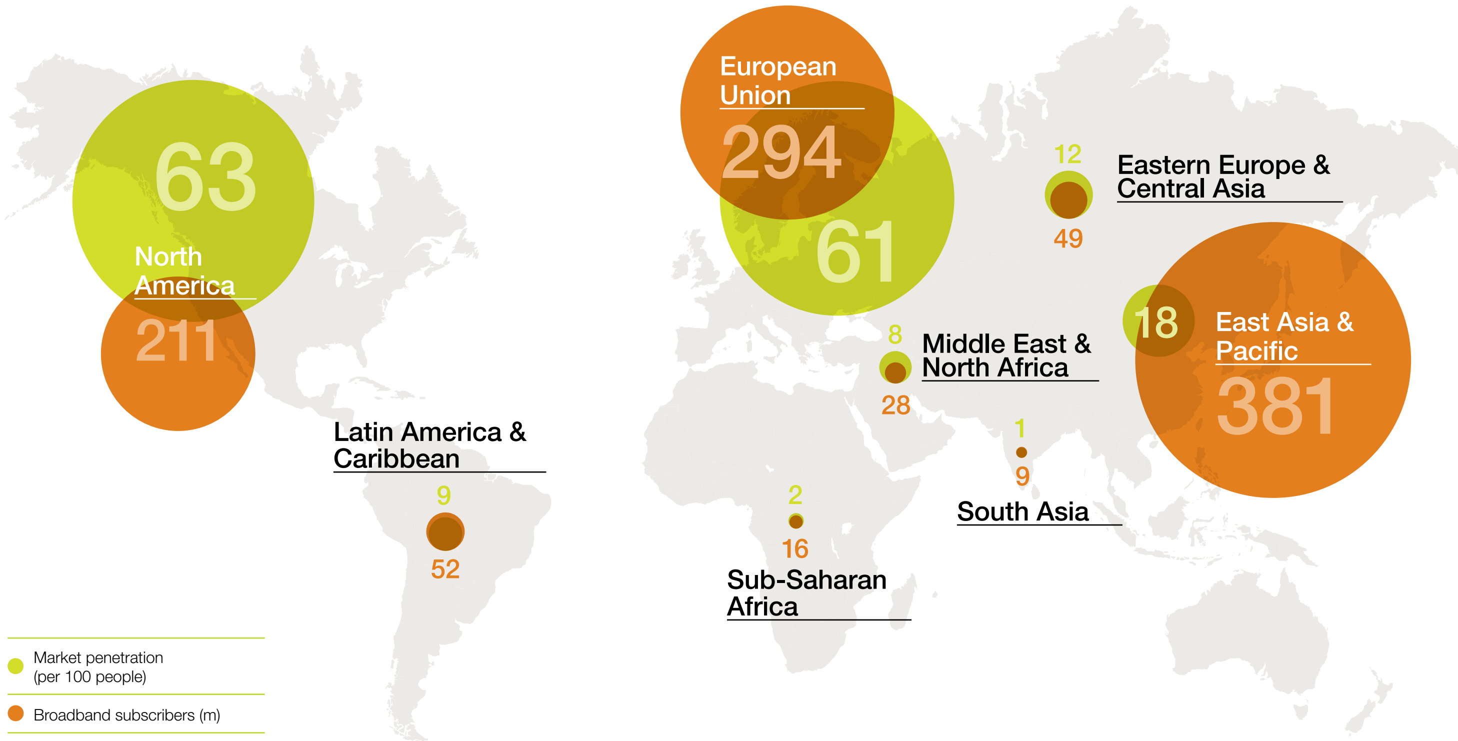
### Investment data

- ECP Africa Fund III made a commitment of US$25m in June 2009 and made a US$15m follow-on investment in 2010
- Value: US$40m
- Turnover: US$17.6m (2009 – 12 months)
- Taxes paid: US$421,000 (2009 – 12 months)
- EBITDA: US$11.0m (2009 – 12 months)
- 466 employees (2010)
- Based in Kenya and Tanzania

# Developing infrastructure
## continued

[redacted]

### Global broadband subscriptions




Global broadband subscriptions (wireline and wireless), September 2009 (source: World Bank, Building broadband: Strategies and policies for the developing world, Yongsoo Kim, Tim Kelly, and Siddhartha Raja)

In 2010, ECP invested a further US$15m in Wananchi, a follow-on to its previous US$25m investment. The additional investment is part of a US$35m round of financing which will enable Wananchi to increase the area served by its network, connecting both businesses and individuals to the worldwide web.

Wananchi employs expatriates on short-term contracts in order to promote knowledge transfer to and training of local talent in laying strand and fibre optic cable, expertise not readily available in Kenya. In Nairobi, the Kileleshwa site serves as an academy where the Wananchi build team is trained to lash, splice and mount cables in the city. Most trainees already have a background with electrical engineering from local technical institutes, but have been unable to utilise their skill sets as a result of the underserved market.

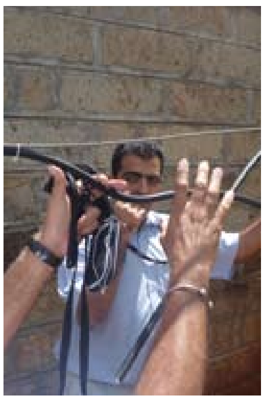
The growth capital provided by ECP has enabled Wananchi to expand its reach and invest in training the local workforce. Since the investment, 70 technicians have attended safety courses and Wananchi has also constructed more than 250 kilometres of fibre and coaxial cable throughout Kenya. This will ensure that Wananchi is providing services in East Africa long after ECP's investment period has ended.

**Richard Bell, Wananchi CEO**

"Our vision is to become the leading PayTV, broadband internet and VOIP* services provider in East Africa. Triple play technology has been proven to be successful in numerous emerging and developed markets and we are well placed to replicate that success here. Moreover, we are making significant investments in core infrastructure by deploying one of the largest fibre systems across Nairobi and Mombassa to capture the surplus consumer demand."

*Voice over internet protocol


01


02

01 Wananchi engineers
02 at work

# 'Clean tech'

With the poorest in the developing world having the most to lose due to climate change, 'clean tech' or green technology has a vital role to play in development. It is also a business opportunity for those poor countries, so CDC is continually looking for ways of getting capital to work in businesses that can make the most of clean technology.

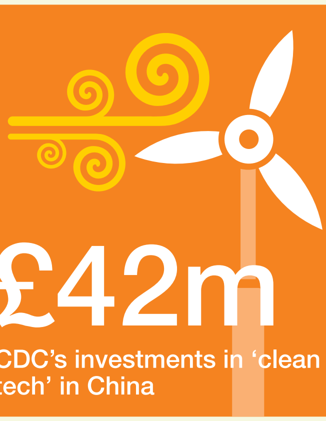
## Key facts

**6bn**

tonnes of $CO_2$ produced by China each year

**22%**

of global $CO_2$ emissions come from China



**£42m**

CDC's investments in 'clean tech' in China

**7GW**

wind energy pipeline of UPC, a CDC portfolio company

**80%**

reduction in waste sent to landfill by Hanjer Biotech, a CDC portfolio company

up to **50%**

of Indian municipalities' budgets are spent on waste management

**£33.5m**

CDC's investments in 'clean tech' in India

**6,650**

tonnes of waste processed by Hanjer Biotech every day

**34**

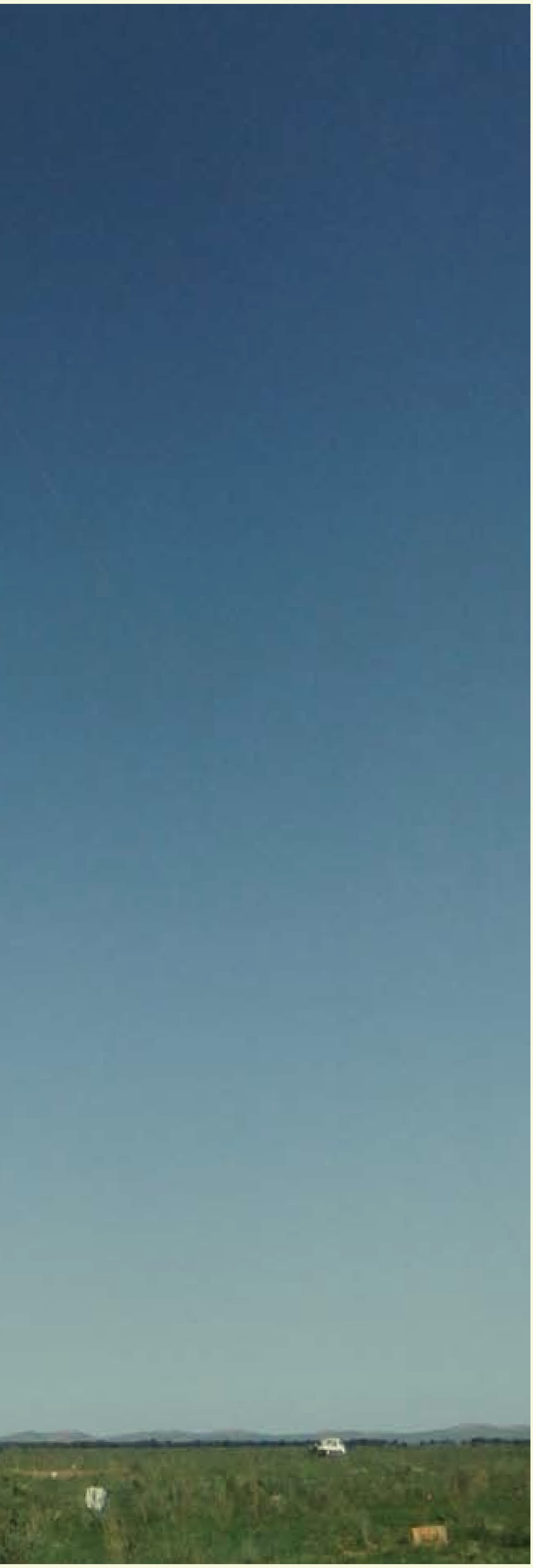
total number of 'clean tech' CDC portfolio companies

**£93.1m**

total value of CDC's 'clean tech' investments

# ‘Clean tech’ continued

[redacted]



01

01 Wind turbine installation

## Investment data

- > Global Environment Emerging Markets Fund III
- > March 2010 GEF invests US$30m into UPC China
- > January 2011 GEF invests a further US$5m
- > Country: China

## Joan M Larrea, GEF Managing Director

"CDC's capital is allowing an experienced international wind power developer to bring its expertise to China, contributing to the reduction of Chinese reliance on coal-fired power. The initial GEF funding brought the company to the stage where it was able to attract subsequent capital from well-regarded local and foreign investors."

## Wind power in China

### UPC Renewables

CDC's alternative investment team targets renewable energy projects across the world, aiming to foster growth in promising businesses, and in doing so contribute to the global effort to reduce emissions. In 2007, under a previous Investment Policy, CDC committed US$40m to the Global Environment Emerging Markets Fund III, launched by fund manager GEF. The fund set out to invest CDC's capital in renewable energy projects, including in China which is a major producer of $CO_2$ emissions.

In 2008 China produced 22% of global $CO_2$ emissions (over six billion tonnes), far surpassing those of other BRIC countries. Chinese $CO_2$ emissions almost tripled between 1990 and 2008, although projections show that the growth in Chinese emissions may slow to 2.9% per year up to 2030. Even with this slower growth, emissions in 2030 will be almost twice current levels, so there's a need for renewable energy sources that will reduce such growth considerably*.

In March 2010, GEF announced a US$30m investment into UPC Renewables China Holdings Ltd (UPC). The investment by the fund was used to help start the construction of wind projects in China. These projects, in which UPC holds 49% interest, added 100MW of gross wind power generating capacity to the grid by the end of 2010.

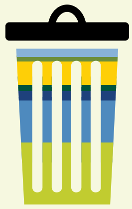
UPC is developing wind farms across China to supply renewable energy to regions including poorer provinces such as Guangxi, Xinjiang, Hunan and Shanxi. The company currently has a wind energy pipeline of over 7GW. To put this into context, the UK has a total of installed capacity of 5.3GW of wind energy.

*Source: International Energy Agency, 2010

# ‘Clean tech’ continued

### Breakdown of household waste in an Indian city (%)

- Glass and ceramics **5%**
- Metal **3%**
- Inert **15%**
- Plastic/Rubber **4%**
- Textiles **6%**
- Paper **27%**
- Food and garden **40%**



## Recycling waste
### Hanjer Biotech Energies

While India’s economic growth has created wealth and opportunities for many it has also created significant challenges, particularly in relation to the environmental consequences of rapid urbanisation. As cities grow, municipal solid waste management (SWM) is an immediate problem, as the population overwhelms capacity.

Municipalities in India have responsibility for SWM, but despite spending up to 50% of their budgets on this issue they are often not able to deal with mounting quantities of waste*.

In March 2008 CDC committed US$100m to Indian fund manager IDFC’s India Infrastructure Fund. The fund is focused on investing in and improving infrastructure businesses in the energy, transport and telecoms sectors, including waste management.

Since 2009 IDFC has invested US$55.6m in Hanjer Biotech Energies, a company that specialises in municipal solid waste processing facilities. Without proper treatment facilities, collected waste is disposed of in uncontrolled dumpsites or burned openly, thus resulting in severe environmental impacts including air pollution and contamination of ground water resources, often the main drinking water supply for the urban poor**.

SWM processing and treatment reduces the amount of waste to be disposed of as well as changing its composition to prevent harmful effects on the environment.

Hanjer’s SWM processing facilities reduce the quantity of waste sent to landfill by 80%, as well as providing a variety of other benefits, as explained below. In 2010 CDC’s capital helped Hanjer expand its operations, opening processing facilities at a further seven locations with the capacity to process around 8,650 tonnes per day (TPD). Further expansion at existing facilities will increase capacity by around 3,000 TPD across seven municipalities. The activities of Hanjer Biotech processing have been widely applauded by government and NGOs.

Mr Jagtap, deputy municipal commissioner, Pune, said:

“Hanjer’s waste management facility has helped us to fulfil our commitment by putting an end to open dumping – something which was going on for the last 20 years.”

Ms Ragini Vain, environment related social worker and waste management expert, said:

“The work done by Hanjer is unique and extremely effective in helping resolve the waste management problems across the country.”

### Investment data

- > India Infrastructure Fund, IDFC Project Equity
- > Invested June 2009
- > Turnover: US$36m (9 months April-December 2010)
- > EBITDA: US$26m (9 months April-December 2010)
- > Approximately 2,000 employees
- > Based in Maharashtra, India

### Benefits of Hanjer Biotech processing

1 

**Reduction in public health hazard**

Openly dumped waste is a potential risk to public health as waste, often mixed with human and animal excreta, spreads diseases and provides a potential breeding ground for bacteria, insects and rodents.

2 

**Reduction in pollution**

Open burning of waste severely impacts the local environment, including air quality and the pollution of ground water. Hanjer reduces the open dumping of waste by converting it into the economically usable products, and also cuts methane emissions.

3 

**Recycling, reducing and reusing of waste**

Hanjer’s processing and segregation technology transforms waste into usable fuel, compost, plastic and sand. All the products extracted and processed are eco-friendly. Hanjer is thus able to recycle almost 80% of the mixed waste which otherwise would be incinerated or dumped in landfill.

4 

**Reduces land requirement**

The residue for landfill is reduced to 20% of the original quantity and precious land is saved for the municipality.

5 

**Reduces costs of waste disposal**

Hanjer generates significant revenue from by-products of processing mixed waste, and hence is able to minimise tipping fees for handling waste. This unique business model of minimal tipping fees ensures reduced financial costs for the municipality in handling the waste.

*Source: World Bank
**Source: Ministry of Environment and Forests, Government of India

01

01 Landfill site

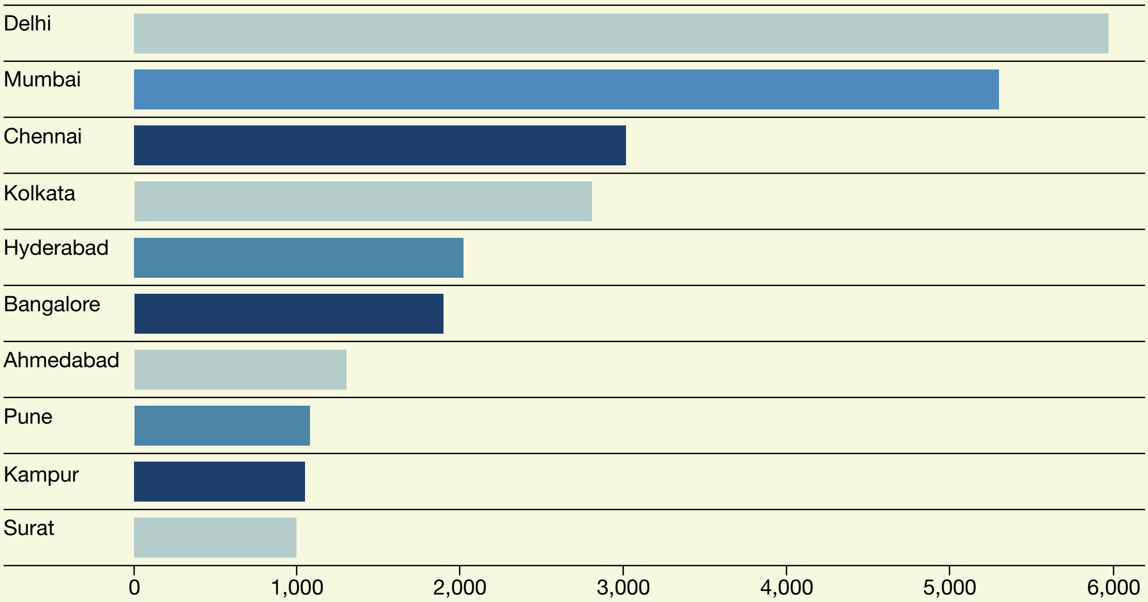
02 Hanjer Biotech solid
03 waste management
04 processing facilities

02

03

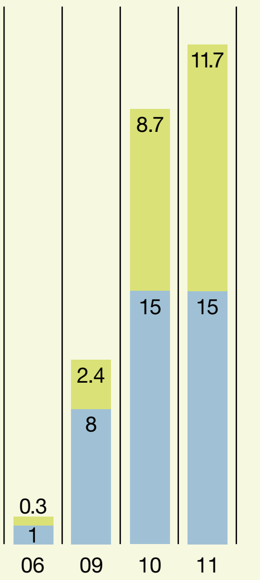
04

## Solid waste generated in India's top ten cities
(tonnes per day)




Source: Ministry of Environment and Forests, Government of India

## Hanjer Biotech processing capacity

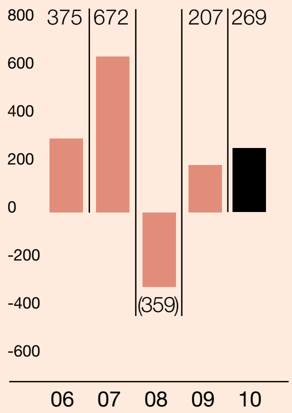



'000 tonnes per day/sites

# Financial
## performance

CDC now has investments in 143 funds managed by 71 different managers.

### Total return (£m)




### Market conditions

The MSCI Emerging Markets Index is designed to measure quoted equity performance in global emerging markets. In 2010, it rose by 19% (2009: 75%). However, index increases of individual countries varied widely in 2010 with rises from South Africa of 34%, Nigeria of 26%, India of 21% and China of 5%.

### Key performance indicators

The individual country weightings within the MSCI Emerging Markets US$ Index are rather different from the geographical spread of CDC's portfolio. In conjunction with Morgan Stanley, an index weighted by CDC's geographical spread of countries was developed to form a new MSCI benchmark for performance. CDC's performance in 2010 was 10% less than its MSCI benchmark, but on a three-year rolling basis CDC's performance was 2% short of the benchmark.

The targets of the new Investment Policy were all exceeded. New investments from commitments made after 1 January 2009 were 84% in sub-Saharan Africa and 92% in low income countries, exceeding the targets of 50% and 75% respectively.

With new investments at 77% in poorer countries and 62% in sub-Saharan Africa and South Asia, the rolling five-year targets of 70% and 50% respectively for the old book were exceeded.

Also, new investments from commitments made prior to 2009 were 32% in sub-Saharan Africa and 52% in low income countries exceeding the targets of 27% and 40% respectively.

The ratio of capital mobilised to CDC capital on a three-year rolling basis is 378% which is ahead of the policy target of 200%.

The fund total return after tax was 11% (2009: 9%), a net return for CDC's shareholder of 11% in the last five years.

### Current performance

#### Portfolio return

The portfolio generated £1.6m of realised losses (2009: £61.0m profit) which arose mainly from exchange offset by yield.

The unrealised valuation gain in the portfolio was £260.1m (2009: £165.5m unrealised gain) driven by the rise in global markets.

#### Operating costs

Operating costs for the year of £12.4m (2009: £12.2m) have risen slightly with an increase in London office employees to 47 (2009: 46). Operating costs represent 0.5% of the company's net value which compares favourably to industry benchmarks of up to 1%.

#### Other net income

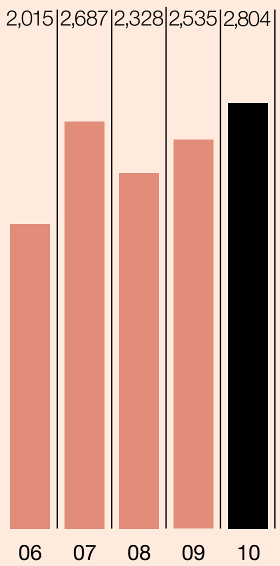
Other net income of £22.6m (2009: £7.3m expense) came mainly from currency translation gains. Interest on cash held remained low due to low interest rates.

#### Total return after tax

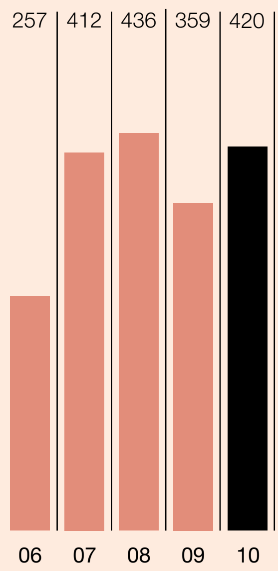
The overall result is a total return after tax of £268.7m (2009: £207.0m). As a return on opening total net assets on a valuation basis, this represents a return for CDC's shareholder of 11% (2009: 9%) this year and an average annual return of 11% over the last five years.

| £m | 2010 | 2009 |
|---|---|---|
| Net realised profits | (1.6) | 61.0 |
| Unrealised value gains | 260.1 | 165.5 |
| Portfolio return | 258.5 | 226.5 |
| Operating costs | (12.4) | (12.2) |
| Other net income/(expenses) | 22.6 | (7.3) |
| Total return after tax | 268.7 | 207.0 |

### CDC value growth (£m)

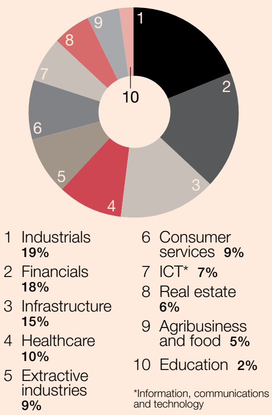



### Fund drawdowns (£m)

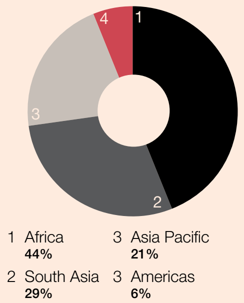


## MSCI benchmark

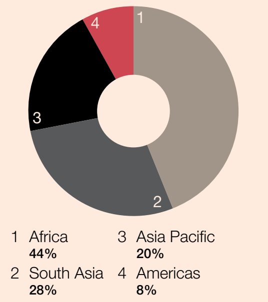

## Underlying portfolio by sector




## Underlying portfolio by region




## New investments 2006 to 2010




## Third party funds mobilised

One of CDC's prime objectives is to mobilise third party capital investment in emerging markets by demonstrating the benefits of successful investment to other capital providers. The mobilisation target set is on a three-year rolling basis at 200%. Actual mobilisations at 378% exceeded the target. In 2010 mobilisation amounted to US$1,378m (2009: US$1,200m). However, the ratio of capital mobilised in the year reduced from 452% in 2009 to 430% in 2010 with CDC committing more capital in 2010.

## Portfolio and net assets

| £m | 2010 | 2009 |
|---|---|---|
| Portfolio | 1,933.2 | 1,410.9 |
| Net cash and short-term deposits | 737.9 | 977.9 |
| Other net assets | 132.4 | 146.0 |
| Total net assets on a valuation basis | 2,803.5 | 2,534.8 |

Total net assets increased in the year from £2,534.8m to £2,803.5m, a rise of 11% (2009: 9%).

| £m | 2010 | 2009 |
|---|---|---|
| Portfolio at start of year | 1,410.9 | 927.7 |
| New investments | 419.7 | 359.3 |
| Realisations | (161.2) | (48.0) |
| Unrealised value gains | 263.8 | 171.9 |
| Portfolio at end of year | 1,933.2 | 1,410.9 |

The portfolio increased from £1,410.9m to £1,933.2m, a 37% increase. The increase came from new investments and valuation gains driven by market conditions.

## Fund drawdowns and cash generated

| £m | 2010 | 2009 |
|---|---|---|
| Fund drawdowns | (419.7) | (359.3) |
| Fund cash generated | 237.4 | 161.6 |
| Net fund flows | (182.3) | (197.7) |
| Hedging | (77.9) | (52.9) |
| Other cash flows | 20.2 | (39.7) |
| Net cash flow | (240.0) | (290.3) |

Drawdowns by funds for new investments at £419.7m (2009: £359.3m) were higher than last year with increased drawdowns from Asia.

There was a higher level of portfolio cash generated this year at £237.4m (2009: £161.6m). The main fund receipts in 2010 were from Actis Latin America Fund 1 and Actis Africa Fund 1, legacy portfolio yields and loan repayments.

## Net cash and short-term deposits held

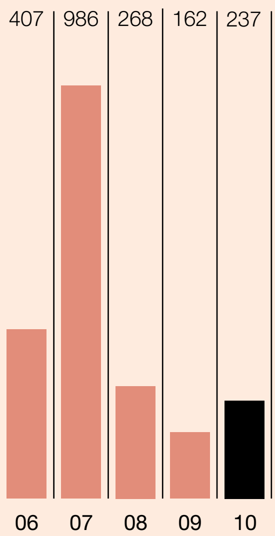
With the level of fund drawdowns and portfolio realisations, cash and short-term deposits were lower at £737.9m (2009: £977.9m). However, cash will be recycled into fund investments and current outstanding commitments for investment which stand at £1,430.2m, representing an over-commitment of 94%.

## New commitments

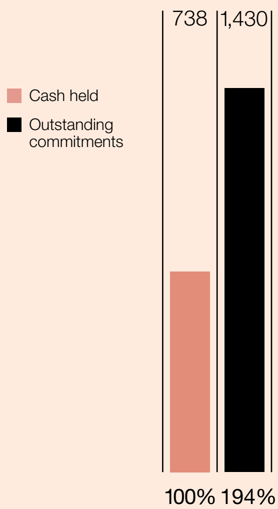
In 2010, CDC made commitments of £231m (2009: £207m), of which 15 were new funds, as follows:

| | £m |
|---|---|
| Africa Infrastructure Investment Fund 2 (US$30m) | 19 |
| AfricInvest Fund II (€12m) | 10 |
| Aureos South East Asia Fund II (US$15m) | 10 |
| Azito Guarantee (US$3m) | 2 |
| Catalyst Fund I (US$15m) | 10 |
| European Finance Partners IV (€25m) | 21 |
| Fonds Cauris Croissance II (€8m) | 7 |
| Frontier Private Equity (US$10m) | 6 |
| GEF Africa Sustainable Forestry Fund, LP (US$50m) | 32 |
| GTLP Guarantee Facility (US$50m) | 32 |
| Interact Climate Change Facility (€25m) | 21 |
| Lok Capital II (US$10m) | 6 |
| Multiples Private Equity Fund I (INR1.3bn) | 20 |
| Peepul Capital Fund III (US$20m) | 13 |
| Renewable Energy Asia Fund (€15m) | 4 |
| Seedfund 2 International (US$12.6m) | 8 |
| VenturEast Life Fund III (US$15.4m) | 10 |
| Total commitments in 2010 | 231 |

## Portfolio cash generated (£m)




## Cash and outstanding commitments at 31 December 2010 (£m)



# Financial performance
## continued

### Outstanding fund commitments and investments

| | Outstanding commitments £m | Investment value £m |
|---|---|---|
| Actis 8 Legacy Funds | – | 65.4 |
| Actis Africa Empowerment Fund | 2.1 | 8.3 |
| Actis Africa Fund 2 | 2.5 | 164.9 |
| Actis Africa Fund 3 | 53.6 | 57.4 |
| Actis Africa Real Estate Fund | 31.2 | 70.5 |
| Actis Agribusiness Fund | 2.8 | 15.3 |
| Actis ASEAN Fund | 18.2 | 7.1 |
| Actis China Fund 2 | 0.9 | 30.1 |
| Actis China Fund 3 | 39.3 | 35.8 |
| Actis Emerging Markets Fund 3 | 55.7 | 85.1 |
| Actis India Fund 2 | 3.3 | 82.4 |
| Actis India Fund 3 | 38.7 | 27.0 |
| Actis India Real Estate Fund | 0.3 | 5.7 |
| Actis Infrastructure Fund II | 225.1 | 131.5 |
| Actis Latin America Fund 3 | 40.9 | 18.9 |
| Actis South Asia Fund 2 | 3.0 | 75.4 |
| Actis Umbrella Fund | 1.2 | 13.6 |
| Canada Investment Fund for Africa | 0.1 | 9.6 |
| 25 Actis managed funds | 518.9 | 904.0 |
| Aureos 5 Legacy Funds | – | 0.6 |
| Aureos Africa Fund | 28.1 | 21.6 |
| Aureos Central America Fund | 1.7 | 1.2 |
| Aureos Central Asia Fund | 9.2 | 2.9 |
| Aureos China Fund | 5.2 | 10.1 |
| Aureos East Africa Fund | 0.1 | 5.2 |
| Aureos Latin America Fund | 8.2 | 11.6 |
| Aureos Malaysia Fund | 4.4 | 1.3 |
| Aureos South Asia Fund I (Interim) | 0.8 | 0.7 |
| Aureos South Asia Fund | 6.2 | 20.1 |
| Aureos South East Asia Fund | 1.4 | 15.8 |
| Aureos South East Asia Fund II | 9.6 | – |
| Aureos Southern Africa Fund | 1.0 | 7.4 |
| Aureos West Africa Fund | 0.8 | 5.8 |
| Emerge Central America Growth Fund | 1.1 | 1.9 |
| Kula Fund II | 0.8 | 2.4 |
| 20 Aureos managed funds | 78.6 | 108.6 |
| Access Holdings | – | 3.0 |
| Adlevo Capital Africa | 9.1 | – |
| Advans SA | 2.9 | 3.7 |
| Advent Latin America Private Equity Fund IV | 4.0 | 12.3 |
| African Development Partners I | 11.7 | 4.4 |
| African Infrastructure Investment Fund 2 | 19.2 | – |
| African Lion | 0.5 | 0.1 |
| African Lion 2 | – | 1.3 |
| African Lion 3 | 6.9 | 3.1 |
| AfricInvest Fund II | 7.6 | 2.2 |
| AIF Capital Asia III | 4.8 | 25.8 |
| Altra Private Equity Fund I | 2.5 | 3.6 |
| Ambit Pragma Fund | 5.9 | 6.4 |
| Ascent India Fund III | 13.5 | 1.1 |
| Atlantic Coast Regional Fund | 7.0 | 1.9 |
| Avigo SME Fund II | 2.4 | 13.4 |
| Avigo SME Fund III | 8.7 | 3.6 |
| Baring India Private Equity Fund II | 1.9 | 5.5 |
| Baring India Private Equity Fund III | 27.0 | 5.1 |
| BTS India Private Equity Fund | 4.6 | 11.6 |
| Business Partners International Kenya SME | 0.4 | 0.5 |
| Capital Alliance Private Equity I | – | 16.3 |
| Capital Alliance Private Equity II | – | 12.9 |
| Capital Alliance Private Equity III | 20.5 | 12.5 |
| Capital Alliance Property Investment Company | 13.5 | 5.8 |
| Capital Today China Growth Fund | 2.8 | 26.5 |
| Catalyst Fund I | 9.6 | – |
| Catalyst Microfinance Fund | 5.6 | 3.5 |
| CDH China Fund III | 9.0 | 47.3 |
| Central Africa Growth | – | 4.3 |
| CITIC Capital China | 2.6 | 16.0 |
| CVCI Africa Fund | 20.8 | 48.0 |
| Dynamic India Fund VII | 9.3 | 23.6 |
| ECP Africa Fund II | 2.9 | 19.2 |
| ECP Africa Fund III | 41.8 | 16.6 |

| | Outstanding commitments £m | Investment value £m |
|---|---|---|
| Ethos Private Equity Fund V | 6.6 | 8.6 |
| European Financing Partners | 0.4 | 6.0 |
| European Financing Partners III | 3.6 | 0.7 |
| European Financing Partners IV | 21.5 | – |
| Fonds Cauris Croissance II | 6.9 | – |
| FountainVest China Growth Fund | 17.0 | 10.8 |
| Frontier Private Equity | 5.9 | 0.4 |
| GEF Africa Sustainable Forestry Fund | 26.5 | 4.8 |
| Global Environment Emerging Markets Fund III | 5.1 | 26.4 |
| Global Trade Liquidity Programme | 0.3 | 48.3 |
| Global Trade Liquidity Programme Guarantee Facility | 32.0 | – |
| GroFin East Africa SME Fund | – | 0.8 |
| GroFin Africa Fund | 14.6 | 2.3 |
| Helios Investors | 7.0 | 33.3 |
| Helios Investors II | 39.6 | 7.1 |
| Horizon Fund III | 2.3 | 1.5 |
| Horizon Tech Ventures | – | 1.1 |
| I&P Capital II | 2.4 | 2.5 |
| IDFC Private Equity Fund II | 0.9 | 14.3 |
| IDFC Private Equity Fund III | 9.3 | 7.3 |
| India Agribusiness Fund | 3.6 | 2.9 |
| India Financial Inclusion Fund | 6.4 | 7.5 |
| India Infrastructure Fund | 39.7 | 28.1 |
| India Value Fund II | 0.4 | 2.1 |
| India Value Fund III | 3.5 | 12.2 |
| India Value Fund IV | 23.7 | 1.4 |
| Interact Climate Change Facility | 21.5 | – |
| International Finance Participation Trust (2004) | 0.3 | 41.3 |
| JS Private Equity I | 18.1 | 3.3 |
| Kendall Court Mezzanine (Asia) Fund I | 0.6 | 6.5 |
| Kendall Court Mezzanine (Asia) Bristol Merit Fund | 10.5 | 9.3 |
| Keytone Ventures | 1.6 | 5.3 |
| Kotak India Realty Fund | 18.2 | 12.6 |

| | Outstanding commitments £m | Investment value £m |
|---|---|---|
| Kotak India Private Equity Fund | 11.7 | 10.2 |
| Legend Capital Fund IV | 2.9 | 3.8 |
| Lok Capital | – | 3.0 |
| Lok Capital II | 6.2 | – |
| Lombard Asia III | 5.4 | 11.1 |
| Maghreb Private Equity Fund II | 3.9 | 14.1 |
| Medu Capital Fund II | 2.9 | 4.1 |
| Minlam Microfinance Offshore Fund | – | 18.6 |
| Multiples Private Equity Fund I | 18.2 | – |
| Navis Asia Fund IV | – | 7.1 |
| Navis Asia Fund V | 9.9 | 43.0 |
| New Silk Route Fund I | 12.8 | 18.3 |
| Nexxus Capital Private Equity Fund III | 1.4 | 12.7 |
| Patria-Brazilian Private Equity Fund III | 14.0 | 6.1 |
| Peepul Capital Fund III | 12.8 | – |
| Qiming Venture Partners | 5.8 | 16.1 |
| Renewable Energy Asia Fund | 11.7 | 0.7 |
| Saratoga Asia II | 15.4 | 14.3 |
| Seedfund 2 International | 7.3 | 0.7 |
| SGAM Al Kantara Fund | 13.9 | 1.0 |
| Shorecap International | 0.4 | 0.7 |
| Shorecap II | 5.4 | 0.7 |
| Sierra Investment Fund | 1.0 | 1.6 |
| Sphere Fund 1 | 0.4 | 1.3 |
| Travant Private Equity Fund I | 16.6 | 1.5 |
| Tripod Capital China Fund II | 7.5 | 12.3 |
| Vantage Mezzanine Fund | 0.6 | 10.0 |
| VenturEast Proactive Fund | 6.2 | 6.6 |
| VenturEast Life Fund III | 6.5 | 5.8 |
| Zana Capital Fund | 2.9 | 13.3 |
| 98 other managed funds | 832.7 | 908.5 |
| 6 co-investments | – | 46.5 |
| Forward foreign exchange contracts | – | (34.4) |
| Total legal commitment to 143 funds at end 2010 | 1,430.2 | 1,933.2 |

# Development
## performance

Fields Wicker-Miurin OBE is chair of CDC's Best Practice and Development Committee (BPDC). The BPDC oversees the monitoring and evaluation process that assesses the impact of CDC's investments and reviews fund evaluations.

### Looking at 2010's evaluations, what are the highlights – and the disappointments?

We had some of each in 2010. We did 15 evaluations, of which 10 were mid-point and five were at the end of the fund. The mid-point evaluations are an opportunity to check progress, find out what's working well, see what needs to be changed and make specific plans to improve the results for the next five years to the end of the fund.

The good news is about jobs created through our investments – jobs are the key to personal security, pride, dignity and better lives for families and communities. The funds we evaluated in 2010 had created 23,000 new jobs in 24 countries. Generating taxes is important too. There are some social needs – like education and health services, for example – that are best met by the state so the taxes our companies pay are really important for the larger society.

We were also pleased when we saw that in most of our funds, our approach and decision to invest encouraged private investors into the funds and so into poor countries needing capital. One of our goals is to lead by example, so that private sector capital will follow us into more challenging developing markets.

We heard how CDC's investment professionals often spent a lot of time helping fund managers with hands-on practical coaching in how to structure a fund and its team, put in place our investment principles and so on. This type of help is often invisible to the outside world, but is vital to the success of many funds in attracting commercial investors, whose investment criteria will differ from ours.

Overall, the most disappointing result from our 2010 evaluations was on financial performance. Of the five final evaluations, two were rated 'unsuccessful' and one as 'poor' (the first time a CDC evaluation has resulted in a poor rating on any metric).

Of the 10 mid-point evaluations, three were rated as 'below expectations' and one as 'unsuccessful'. This shows that our business is a risky business and not all of our investments will deliver a satisfactory financial return to CDC. Two of the final evaluations that scored 'unsuccessful' and 'poor' were first time, single-country funds into Sri Lanka dating from before the time of CDC's current investment model and focused on the small and medium sized enterprises (SME) sector – a tough investment focus so perhaps less surprising that they struggled. Even so, we are looking for both financial success and development success. It's a big ask, but that's what we are here to do.

### What are the strengths and shortcomings of the evaluation process?

I think overall our process is pretty good – this is the fifth year we are following it, and we continue to learn from it, and improve it as we go along. For example, we have learned that we need to refine the mid-point evaluation criteria to make sure we are looking at leading indicators for the final evaluation – in other words, at the halfway point, what are the most important indicators for achieving our ultimate development and financial performance objectives? The results after five years will be different from those after 10 years. This halfway check gives us the opportunity to improve the final result at the end of the fund and we need to make the most of it.

I also think we can do more to share best practice and what we learn from the evaluations across our community of fund managers. We found through our ESG toolkit training sessions in 2010 that our fund managers have a real appetite to learn from us and from each other. This is a good way for us to share best practice around our investing universe so everyone benefits.

Above all, we need to keep challenging ourselves, learning from our experience and applying what we learn to do better. We need developmental ambition to find out what works. Our approach needs to stay flexible, humble and open to change.

### Will evaluations of funds ever be 100% independently conducted?

This is not our aspiration. In 2010, nine out of 15 evaluations were independent and they brought real value. The advantages of independent evaluations are obvious – an outside perspective is vital – but the internal evaluations are also valuable since they allow CDC's own investment professionals to look at the impact of their investments at the human level on the ground. The evaluation process brings the investment team face to face with the longer term positive difference of our investments on peoples' lives: for example, our investment code and ESG requirements meant that a portfolio construction company in Africa introduced world class health and safety standards so that all workers wear hard hats on site and use modern safety harnesses. This might seem small to us, but it is significant for the workers and their families. These stories bring real meaning to our work and it's important for us to hear them.

### Why can't evaluations be published in full?

The main reason is confidentiality; CDC simply isn't at liberty to share everything. This is how we get the openness and collaboration we need to make the process truly effective. We are interested in learning and improving the investment results, not blaming and shaming which would be counterproductive. The Committee's job is to examine, to push back, to understand and to make sure all the learning is used to improve the impact of our investments. The process is tough. We know achieving genuine development is complex and difficult and we're not in the business of box-ticking.

### The need for capital to help businesses in poor countries grow is well known and part of CDC's job is to encourage investors. Is CDC making progress here?

Shortage of private capital for investment in developing countries is a serious issue and one of CDC's objectives is to make the case for private money to come in with us and after us. It was particularly gratifying to hear during the evaluation process that the CDC 'hallmark' means quality to other investors. They know we will have asked the hard questions and that we are uncompromising in our investment principles.

When I think about catalysing investment, it's the work CDC does with first time teams that stands out, too. Helping new investment teams get off the ground where there is no real private equity market and supporting them as they build the all-important track record makes a big difference and brings investment money to the poorest markets.

Finally, when we go into a fund in a sector with limited appeal to the private sector – such as African agribusiness – and when we do that successfully, we're sending an important message to the market: investing in Africa can be done responsibly and profitably. That really matters.

### Is it possible to identify one of the indicators to measure development impact as the most important?

The short answer is 'no'. They're all important and they are inter-dependent. We use the same categories as the other major development finance institutions and we have two additional measures – mobilising capital and private sector development.

How to measure the impact of our investments on private sector development is probably the most challenging one to figure out. We want to learn from others, so we looked at best practice among Development Finance Institutions (DFIs) in 2010 and we found that no one had cracked this yet.

This is one of the areas where there is a lot of work to do and where our goal is to do more – we need to keep pushing ourselves to learn from our experience and to learn from experts focused on development around the world. For me personally this is hugely exciting. We must guard against using twentieth century indicators for twenty-first century challenges.

### How does the Best Practice and Development Committee contribute to CDC's effectiveness?

We hold a magnifying glass to our investments and ask the tough questions about how we're making a lasting contribution to improving the lives of poor people in developing countries. So, from the point of view of a smallholder in Tanzania or a shop worker in a village in north-eastern India, how is CDC making a difference? After all, that's what CDC is all about.

The Committee is also an unfiltered reflection internally for the company to learn about itself as seen from the ground up, to take stock on a regular basis and discuss and decide what we can and need to do better. I don't know of many organisations in the world where this honest learning, which looks at impact in the round and not just from the financial perspective, is part of the very process of running the business.

I have an important aspiration for the Committee too. CDC is in a rare position to use our experience to make a lasting contribution to development. We can learn and share our insights from what has and what has not worked. We can also learn from the other players interested in development, from different sectors and perspectives around the world: academics, social entrepreneurs, governments, NGOs, other DFIs and multilateral organisations, and also with far-sighted businesses. I want CDC to continue to make real progress here.

**Fields Wicker-Miurin OBE**
Chair of CDC's Best Practice
and Development Committee

# Development performance
## continued

CDC carries out a detailed evaluation of each fund at the mid-point and the end of its investment period. In 2010 CDC carried out 15 fund evaluations, of which ten were mid-point evaluations and five coincided with the end-point of the fund's life. The evaluation framework assesses the overall development outcome of a fund by examining four key indicators, based on systems used by other DFIs, notably the IFC*. The four indicators are financial performance, economic performance, ESG performance and private sector development. Evaluations also assess CDC's own effectiveness in connection to a fund.

### Financial performance

1 

This considers whether a fund (and the investments it makes) is profitable and returns capital to CDC. This return of capital enables further investments without calling on tax-payer funding and demonstrates that investing in the emerging markets can be financially successful to other potential investors.

Financial sustainability is vital for effective development and being profitable does not have to come at the expense of good social impacts. A responsibly managed company is a better business proposition than an operation focused on short-term returns that is not run responsibly.

Making a profit means that the company can attract further investment, can grow, invest in training and R&D, and employ more people. Many of the businesses our fund managers back are not profitable at the time of investment – but they have the potential to be.

So expecting fund managers to deliver good returns is all part of the development story.

Examples from 2010 evaluations

+ In 2001 CDC spotted a lack of capital for start-up technology businesses in South Africa, and backed a first time, independent fund manager there. The fund invested in an ATM service provider, helping it grow its ATM network from just 500 machines to over 3,000. Its footprint now includes many rural areas and townships whose populations were previously unbanked. The fund showed strong financial performance (IRR 28%).

+ An evaluation of a porfolio that included investments from the pre-2004 CDC showed a small positive return overall. High commodity prices allowed the fund manager to achieve successful exits for half of the investments in the fund, but one investment in particular has been mothballed due to political instability in Sudan. Following the referendum on independence for Southern Sudan the fund manager hopes to attract a buyer for the investment as the country becomes more stable.

### Economic performance

2 

This indicates the extent to which investments generate benefits for the local economy, as well as creating jobs and paying taxes. Formal employment provides stability and security for individuals, and allows them to plan for their future. Jobs provide wages, which then generate taxes, savings and consumer spending. They are a vital ingredient in long-term economic development.

+ A fund manager operating in India with a mixed-sector portfolio of companies experienced revenue growth in 12 out of the 15 investments. Furthermore, the average increase in employment numbers was 80% across 14 companies measured, including business services, financial services, healthcare and renewable energy.

+ All five operational investments of an African real estate fund have seen significant increases in turnover and profitability. In the case of one exited investment, turnover at a Nigerian shopping complex increased by 86% and profitability by 58%. CDC's fund manager estimates that over 1,000 indirect jobs have been created in the supply chain resulting from its real estate projects. In addition, significant tax revenues have been created for local governments as a result of taxes paid by tenant-businesses at different project sites.

*The International Finance Corporation

### 2010 evaluations in numbers

**15**
funds

**11**
fund managers

**140**
companies

**10**
mid-point evaluations

**5**
final evaluations

**6**
funds investing in Africa

**7**
funds investing in Asia

**2**
global microfinance funds

## 2010 evaluations in numbers

CDC's evaluation work in 2010 covered funds investing in companies of all sizes and in all sectors

**13**

funds rated satisfactory in terms of 'development outcome'. This includes all funds in Asia and five out of six African funds

**8**

funds rated satisfactory or better in terms of 'financial performance'. This is less impressive than last year when 70% of funds evaluated were rated satisfactory or better for 'financial performance'

**6**

evaluations conducted by CDC

**9**

evaluations conducted by external consultants

## ESG performance

3

This considers whether fund managers and their portfolio companies are adhering to responsible investment and business practices in line with CDC's Investment Code. While CDC recognises that some businesses will have ESG issues to manage from the outset, the Investment Code requires fund managers to manage and improve these over time. For more on CDC's approach to ESG standards please see pages 27-31.

### Examples from 2010 evaluations

+ An agribusiness fund manager has a well-integrated approach to ESG covering five key areas: environment, climate change, health and safety, business integrity and social. This approach, reflected in the investee companies, has combined with other factors to add value and attract buyers. For example, certification has become increasingly important in the agribusiness sector and several of the companies in the portfolio have achieved ISO, FSO or Fairtrade certification standards.

+ The evaluation report notes that a forestry company that rigorously follows sustainable management practices has been unable to achieve FSC certification because it was originally established on forested land in 1992. CDC's fund manager invested in the business before this principle became a requirement of FSC certification and after the conversion of forested land had already taken place. This has made finding a buyer for the company more difficult, demonstrating how important sustainability considerations are in this sector.

+ A fund manager in South Asia implemented social policies that were sector-leading in two portfolio companies. One, a successful IT company, provided a wide range of essential services and facilities for staff, including housing, healthcare and education. Similarly, a successful packaging company also offered residential facilities, subsidised meals and travel facilities as well as being a significant employer of women.

## Private sector development

4

This assesses whether CDC's fund managers and their investments have broader positive effects on the private sector where they invest. A range of factors is examined including increased local financial capacity, improvements to the local regulatory environments or infrastructure, and increased availability of better quality goods and services.

### Examples from 2010 evaluations

+ Despite growing per capita income and rising consumer demand, there are few existing modern retail complexes in sub-Saharan Africa beyond South Africa. CDC's fund manager has developed the first A-grade shopping complexes in Accra, Lagos and Nairobi, improving the local retail infrastructure, as well as creating new and better supply chains. CDC's fund manager has since commenced a second project in Nigeria in 2008.

+ A fund manager in South Asia invested in a company that developed an online appointment system for hospitals, allowing patients to make local appointments with medical specialists. As part of this, the company created a local network of internet points at post offices and local government offices, improving connectivity in the area. The fund was a pioneer in the region and demonstrated its patient approach by maintaining its presence during periods of civil war and unrest.

# Development performance
## continued

**Aggregate evaluation rating 2010** 15 evaluations (9 external)

| | Excellent | Successful | Satisfactory | Below expectations | Un-satisfactory | Poor | % better than satisfactory |
|---|---|---|---|---|---|---|---|
| Development outcome | 1 | 2 | 10 | 2 | - | - | 87 |
| Financial performance | 2 | 2 | 4 | 3 | 3 | 1 | 53 |
| Economic performance | 1 | 6 | 7 | 1 | - | - | 93 |
| ESG performance | - | 4 | 8 | 3 | - | - | 80 |
| Private sector development | 2 | 8 | 3 | 2 | - | - | 87 |
| CDC effectiveness | - | 7 | 8 | - | - | - | 100 |
| Added value | - | 11 | 4 | - | - | - | 100 |
| Catalytic* | - | 5 | 8 | 1 | - | - | 93 |

*Catalytic effect is not considered for funds where CDC has entered in the final close, hence the number of funds rated on catalytic effect is fewer than for the other performance measures

Other statistics from 15 fund evaluations carried out in 2010

### Financial performance

One of the best performing funds showed a net IRR of 28% in its final evaluation. The least well performing fund showed a net IRR of -3.5% in its final evaluation, a very poor return.

### Economic performance

+ 61% of portfolio companies showed employment growth with 23,000 new jobs created.

+ 21% of portfolio companies decreased their number of workers, with 11,000 jobs lost.

+ 77% of the portfolio companies experienced growth in turnover, whereas 18% saw turnover decrease.

### ESG performance

Five fund managers were rated highly in the quality of their ESG management systems. Six fund managers were rated as moderate

Of the portfolio companies rated in terms of their ESG management systems:

+ 52% were rated high

+ 45% were rated satisfactory

+ 3% were rated poor

+ 58% of portfolio companies had ESG issues at investment

+ 79% of portfolio companies made improvements on ESG practices during the investment period

+ 34% had demonstrated improvements in environmental management

+ 60% showed improved practices from the social perspective

+ 57% had undertaken improvements in corporate governance

### Private sector development

+ US$1.5bn in third party capital was raised by the 15 funds evaluated

+ CDC contributed a total of US$405m to these funds, 21% of the total capital

# Additional information

## Transparency

As a government-owned company CDC is committed to providing good transparency to our activities and investments. CDC therefore publishes information about its performance, portfolio policies, funds and fund managers and portfolio companies, as well as responding to Freedom of Information Act requests in a timely fashion.

There is some information that CDC cannot publish due to commercial sensitivity. By working with private equity fund managers CDC mobilises huge amounts of commercial capital, but the fund managers and commercial investors request that some information is treated in confidence.

As CDC seeks wherever possible to be transparent, in some instances more sensitive information is published on a non-attributed basis, removing names and/or geographical information. In other cases CDC is bound by legal commitments that prevent the publication entirely.

## External perspectives

External perspectives on CDC's systems, processes and performance are of great importance to CDC. Independent parties are a source of objectivity, validation and constructive criticism. Since 2009, CDC has engaged KPMG to provide assurance over CDC's management systems to implement its Investment Code as set out in section five of this Code. In 2010 CDC is very pleased to have received a reasonable (i.e. positive) assurance opinion from KPMG. The Investment Code, CDC's reporting and the KPMG opinion are available through www.cdcgroup.com/2010review. Furthermore, this year nine out of 15 periodic fund evaluations were undertaken by an external third party.

CDC's financial audit is also undertaken by KPMG, and the results are available at www.cdcgroup.com. CDC is pleased to have received a clean opinion in 2010.

## Serious incidents

CDC requires its fund managers to report without delay any incident involving investee companies that results in loss of life, material effect on the environment or material breach of the law. The fund manager must also report how the incident was dealt with, and CDC follows up each incident to ensure it has been properly recorded and reported (where applicable) to the appropriate authorities. Fund managers must also investigate and remedy any underlying systemic cause of the incident to prevent a reoccurrence.

CDC's capital is invested in 930 companies in 70 countries. In 2010, 754 of these reported employment which shows that together CDC's portfolio companies employ nearly 800,000 people. Given that CDC invests in a range of businesses in many sectors across developing countries, it is not surprising that managers sometimes report serious incidents to CDC.

In 2010, CDC's portfolio was associated with 68 fatalities. 24 of these were either employees or contractors out of a total number of employees of nearly 800,000. 12 were due to road accidents, seven fatalities occurred on site at the respective company and five happened as a result of robberies or other unlawful violence.

The remaining 44 fatalities were among members of the public. 29 of these related to unlawful interference with assets such as attempts to tap in and steal electricity from power transmission lines.

Another eight stemmed from individuals touching fallen power transmission lines, while four were due to unlawful acts of violence by parties external to the portfolio company in question, and three were related to road accidents.

To combat this type of incident, portfolio company Umeme has replaced 120,000 rotten electricity poles and launched an education programme to warn of the dangers of electricity.

For more information about serious incidents please visit http://www.cdcgroup.com/FAQ

## Offshore Financial Centres (OFCs)

Some of the funds to which CDC commits capital are domiciled in OFCs.

The reasons for this are varied.

**+** OFCs provide a stable legal and regulatory infrastructure, which accommodates the requirements of investors seeking to invest in developing countries. Using OFCs allows investors to put capital to work in developing countries without having to wait for the necessary legal and regulatory systems to be established in those countries first.

**+** OFCs allow the tax neutral pooling of capital, which is then used for investment in developing countries. An investor in a pooled investment vehicle should be placed in no worse a position than if it had invested in the underlying investment directly.

# Additional information
## continued

+ OFCs allow investors to avoid double taxation as permitted by bilateral tax treaties and national tax laws. Taxes are paid in developing countries by our funds' portfolio companies.

CDC's approach to the use of OFCs is legal and in line with the practices of most international and development finance institutions. With one exception, CDC's investee funds are domiciled in jurisdictions that have substantially implemented the internationally agreed tax standard as determined by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes (i.e. they are on the OECD 'white list'). The one exception is Vanuatu, which has committed to the internationally agreed tax standard but has not substantially implemented it. It is believed that Vanuatu will migrate to the OECD 'white list' in 2011.

CDC keeps its policy regarding the use of OFCs under constant review and seeks to follow evolving international best practice.

### UNPRI

CDC is a signatory of the United Nations' Principles for Responsible Investment ('UNPRI') together with more than 700 other institutional signatories. The UNPRI aims to provide a framework built on six key principles for investors to take into account environmental, social and governance ('ESG') issues in their investments. For more information, please go to www.unpri.org.

### Data disclaimer

Whilst we have used our reasonable efforts to ensure the accuracy of data used in this report, certain data has not been audited or independently verified. Most of the data has been provided to us by our fund managers. Fund managers and portfolio companies have reviewed the case studies specifically about them.

Data on employment and taxes paid has been received from many but not all of CDC's portfolio companies. We have received this data from 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 2010. Employment data may sometimes include contract workers and other non-permanent workers. Tax data mostly refers to corporate taxes paid in 2009 by CDC's portfolio companies.

Data on employment and taxes paid, as with all other data in this report save for audited financial data, should be read as indicative of magnitude rather than exact figures. We have therefore rounded all data in a conservative manner. We have avoided extrapolations, which would show estimated data for CDC's entire portfolio, in order to keep quoted figures as close as possible to the information we have received from our fund managers.

Unless otherwise stated the financial data and valuations contained in this report relate to the year ended 31 December 2010.

Any errors or omissions are regrettable but, as with any report based on extensive data received from third parties in developing countries, difficult to avoid entirely. CDC will continue to seek to improve its efforts to ensure data quality and enrich its knowledge management systems in future.

### Photographs

All photographs originate from CDC's image library of portfolio companies and have been either supplied by fund managers or taken by CDC staff on site visits, with the exception of the photographs on pages 18 and 19 which are credited to Sven Torfinn/Panos Pictures.

### Design

Rare Corporate Design www.rarecorporate.co.uk

### Feedback

CDC welcomes all feedback on this report and seeks to improve the standard of its publications. Please see www.cdcgroup.com

Alternatively, please contact CDC by email via the address enquiries@cdcgroup.com. Contact information for CDC's ESG and communications teams is also available from the website.

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# Fund managers

## Global

Actis
**www.act.is**

Aureos
**www.aureos.com**

Cordiant Capital
**www.cordiantcap.com**

## Africa

Adlevo Capital
**www.adlevocapital.com**

Advanced Finance and Investment Group
**www.afigfunds.com**

African Capital Alliance
**www.aca-web.com**

African Infrastructure Investment Managers

African Lion
**www.afl.co.za**

Business Partners
**www.businesspartners.co.za**

Cauris Capital Partners
**www.caurismanagement.com**

Catalyst Principal Partners
**www.catalystprincipal.com**

Citigroup Venture Capital International
**www.citicapitaladvisors.com**

Development Partners International
**www.dpi-llp.com**

Emerging Capital Partners
**www.ecpinvestments.com**

Ethos Private Equity
**www.ethos.org.za**

GroFin
**www.grofin.com**

Helios Investment Partners
**www.heliosinvestment.com**

Horizon Equity
**www.horizonequity.co.za**

I&P Management
**www.ip-mngt.com**

Manocap
**www.manocap.com**

Medu Capital
**www.meducapital.co.za**

Amundi
**www.amundi.com**

Sphere Holdings
**www.sphereholdings.co.za**

Travant Capital
**www.travantcapital.com**

Tuninvest
**www.tuninvest.com**

Vantage Capital
**www.vantagecapital.co.za**

## Alternatives

Access Holdings
**www.accessholding.com**

Horus Development Finance
**www.horus-df.fr**

Berkeley Partners
**www.berkeley-energy.com**

Caspian Capital Partners
**www.caspian.in**

CMIMC
**www.catalyst-microfinance.com**

Global Environment Fund
**www.globalenvironmentfund.com**

Minlam Asset Management
**www.minlam.com**

Equator Capital Partners
**www.equatorcapital.com**

Lok Capital
**www.lokcapital.com**

## Asia

AIF Capital
**www.aifcapital.com**

Frontier G P Pte Ltd

JS Private Equity
**www.js.com**

Kendall Court
**www.kendallcourt.com**

Lombard Investments
**www.lombardinvestments.com**

Navis Capital Partners
**www.naviscapital.com**

Saratoga Capital
**www.saratoga-asia.com**

## India

Ambit Pragma Ventures
**www.ambitpragma.com**

Ascent Capital
**www.ascentcapital.in**

Avigo Capital Partners
**www.avigocorp.com**

Baring Private Equity Partners India
**www.bpepindia.com**

BTS Investment Advisors
**www.btsadvisors.com**

ICICI Venture
**www.iciciventure.com**

IDFC Private Equity
**www.idfcpe.com**

IDFC Project Equity
**www.idfcpe.com**

India Value Fund Advisers
**www.ivfa.com**

Kotak Mahindra Group
**www.kotak.com**

Multiples Investment Advisors

New Silk Route Advisors
**www.nsrpartners.com**

Peepul Capital
**www.peepulcapital.com**

Rabo Equity Advisors
**www.rabobank.com/india**

Seedfund Advisory
**www.seedfund.in**

VenturEast
**www.ventureast.net**

## China

Capital Today
**www.capitaltoday.com**

CDH Investments
**www.cdhfund.com**

CITIC Capital
**www.citiccapital.com**

FountainVest Partners (Asia)
**www.fountainvest.com**

Keytone Capital Partners

Legend Holdings
**www.legendcapital.com.cn**

Qiming Venture Partners
**www.qimingventures.com**

Tripod Capital International
**www.tripodcapital.com**

Zana Capital
**www.zanacapital.com**

## Latin America

Advent International Corporation
**www.adventinternational.com**

Altra Investments
**www.altrainvestments.com**

Nexxus Capital
**www.nexxuscapital.com**

Patria Banco De Negocios
**www.patriainvestimentos.com.br**

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