Responsible investment works

CDC Group plc
Annual Sustainability Review
2016–2017

Mission

CDC's mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

Supporting businesses to create jobs

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

Our model

The need

No country has escaped poverty without a thriving private sector playing a full role in developing a strong economy.

The need for jobs in Africa and South Asia is vast. More than three-quarters of working-age people in Africa and South Asia do not have a job in the formal sector.

To get people into work, countries need a balanced economy with businesses of all sizes. But many of these businesses struggle to find the investment they need to grow. International investors are often put off by higher levels of risk in CDC's geographies. That's why DFIs like CDC are needed.

Where we focus

We invest in Africa and South Asia because over 80 per cent of the world's poorest people live in these regions. We focus on investing in countries where the private sector is weak, jobs are scarce and the investment climate is difficult, but particularly in sectors where growth leads to jobs. These sectors are financial institutions, infrastructure, health, manufacturing, food and agriculture, construction and education.

What we put in

We provide the long-term investment that many businesses in developing countries need. We're able to stand firm with businesses through hard times, because we know success in these environments can be challenging and takes time.

We invest directly through equity and debt, and indirectly through fund managers and financial institutions who are aligned with our investment philosophy.

And we know it takes more than money to grow a great business. So we also invest our time and expertise, and share our experience and networks to help businesses grow. Providing practical support to help businesses achieve good environmental and social (E&S) standards is a key part of this work.

What we achieve

We invest for both development impact and financial return, to encourage the growth of the private sector in Africa and South Asia.

74 countries

We now invest in 74 countries.

1,245 businesses

Our investment supports 1,245 businesses – including 653 in Africa and 342 in South Asia.

44,000 direct jobs

In 2016, these businesses created 44,000 new direct jobs in Africa and South Asia.

1.29m direct and indirect jobs

We estimate that as well as creating 44,000 direct jobs, these businesses helped create 1.24 million indirect jobs – 1.29 million jobs in total.

£4.8bn in assets

Our assets have grown to £4.8 billion.

2.3% annual return

In 2016, we made a US dollar annual return on our net assets of 2.3 per cent (15.5 per cent in UK sterling).

An introduction from our Chief Executive

A message from Nick O'Donohoe

We know that it takes more than just money to grow businesses in Africa and South Asia. When we make an investment, we try to offer something additional that would not typically be provided by mainstream investors. The advice we offer on E&S issues, and the E&S improvements we help companies to implement, are an important part of this extra support.

Since my appointment as CEO earlier this year, I've been visiting many of the companies we invest in and have seen some of the challenges they face. It's been great to hear about the benefits they have achieved as we've worked with them to introduce good international E&S practice. And I have also found that most companies want us to help them go further. They want to know how they can innovate and make their business more successful through E&S improvements. We are helping them do that. The Resource Efficiency Facility – launched in April 2017 – is one very good example of this. It helps companies identify opportunities to improve their energy and water efficiency, and provides low-cost finance to implement solutions; saving money and reducing their carbon footprint.

Our commitment to sustainability goes beyond tackling climate change. Supporting women's economic empowerment and improving job quality are integral to the new Strategic Framework we launched earlier this year. We'll discuss our evolving approach to these – and other E&S issues such as water and solid waste – in this and future annual sustainability reviews.

1 Our approach to responsible investment

Our framework

Ritu Kumar and Mark Eckstein, ESR Directors, CDC

We invest in some of the most challenging environments in the world. We're working in countries where weak legal frameworks and a lack of regulatory oversight can mean, for example, that enforcement of labour laws is poor, or the health and safety culture inadequate.

That's why our **Code of Responsible Investing** provides such an important framework for our investment activities. The Code sets out the management systems that we require to ensure that our investments are made responsibly. The Code requires all our investments (including financial intermediaries) to meet domestic and international E&S standards in a practical manner. The Code also includes a list of activities that our capital should never be used for. The fund managers and financial institutions who manage our capital sign up to the same requirements. For example, our requirements on labour standards filter down through our fund managers into investee companies, improving working conditions across a range of sectors. Our Code is therefore one way that we spread good practice through our portfolio and into the wider market.

Because we invest in difficult markets where E&S regulations may be weak or ineffectively implemented, our Code requires portfolio companies to meet specific international standards, such as the International Finance Corporation (IFC) Performance Standards and the International Labour Organization's core conventions. We understand that not all companies will fully comply with these standards at the point of our investment. So we develop a legally binding E&S action plan with the investee to help them to move towards international standards over an appropriate timeframe.

« We want to show that responsible investing is not only possible in the most challenging markets, but that it benefits businesses. »

The international context around responsible investing is changing rapidly, and we want to make sure we're evolving to meet these changing needs. So, along with our new Strategic Framework, we introduced an updated Code in 2017. The update reflects the evolution in responsible investing since the Code was last fully revised in 2012. For instance, it introduces the UN Global Goals and the UK Modern Slavery Act, and makes more robust reference to the UN Guiding Principles on Business and Human Rights. Our approach to climate change, gender, and fragile and conflict-affected states is reinforced. We also set out new recommendations on issues such as animal welfare.

More broadly, the updated Code is designed to make our requirements easier for potential investees to understand and to align more closely with other DFIs.

Alongside the Code, we adopted a **Climate Change Policy** in 2014 that means we proactively assess climate change risks and opportunities in our investments. A separate **Policy on Coal-fired Power Generation** effectively means that we do not invest in coal-fired power plants.

We want to show that responsible investing is not only possible in the most challenging markets, but that it benefits businesses. Our Code demonstrates our commitment to doing this.

A view from our shareholder

Rachel Turner,
interim Director
General for Economic
Development, DFID

Here, Rachel discusses DFID's perspective on responsible investment at CDC.

Why is CDC's approach to E&S responsibility important to DFID?
We are facing unprecedented global challenges that need an urgent response. The World Bank says that without rapid action, climate impacts could push an additional 100 million people into poverty by 2030. At the same time, the world needs to create 600 million jobs over the next 15 years to keep employment rates at their current level. Creating businesses in Africa and South Asia that are environmentally and socially responsible is crucial to meeting these challenges. That's why CDC's approach to sustainability is so important to DFID.

Why was CDC's Code of Responsible Investing recently updated?
The updated Code is what enshrines CDC's commitment to this agenda. The latest updates reflect topics that have emerged since the last refresh, such as the Modern Slavery Act, the UN Global Goals and the Paris Climate Agreement, all of which are important Government priorities. It also pushes for higher and broader standards around issues like animal welfare. The updates demonstrate the seriousness that both CDC and DFID place on E&S responsibility.

What role can DFIs, such as CDC, play in improving E&S standards in developing countries?
DFIs are at the forefront of investing in the world's most challenging markets. They lead the way and others follow. But unlike many private investors, DFIs are not focused on short-term financial returns. Their core mission is about impact: creating jobs and improving people's lives. So E&S considerations are central to everything they do. CDC can use its status as a DFI to ensure that the highest standards are achieved, even when it only has a small stake in a business or an investment fund. Developing countries often have weak regulatory frameworks, so companies may be self-regulating on E&S issues. This can lead to abuses by some. But strong responsible investors like CDC help to embed sustainability in developing countries.

CDC's new Strategic Framework (2017–2021) includes commitments on women's economic empowerment, climate change and job quality. Why are these important issues for CDC?
CDC is at the heart of DFID's approach to economic development. The new Strategic Framework shows how CDC is putting DFID's policy priorities into action. DFID was instrumental in setting up the UN Secretary-General's High-Level Panel on Women's Economic Empowerment, which issued its **landmark report** in March 2017. CDC is continuing this work by promoting gender equality and helping to deliver safer, more secure and higher-return work for women. Through its investments, CDC can help countries to meet their Paris Climate Agreement commitments. On jobs, DFID and CDC are aligned in recognising that it is both the number and the quality of jobs that matter for sustainable development.

Where does CDC's approach to E&S issues fit within DFID's broader activities?
DFID supports national governments in Africa and South Asia to develop regulatory frameworks with good E&S standards that attract investors. This work helps CDC to invest in businesses, setting an example for responsible investment in challenging markets. CDC also actively participates in specific DFID programmes. For example, the Responsible, Accountable and Transparent Enterprise (RATE) programme is helping CDC investment managers and investees to identify and prevent poor labour practices in their supply chains. And through its participation in the Interlaken Group, CDC has worked closely with DFID's Land: Enhancing Governance for Economic Development (LEGEND) programme to improve the management of land tenure risks for investors and communities.

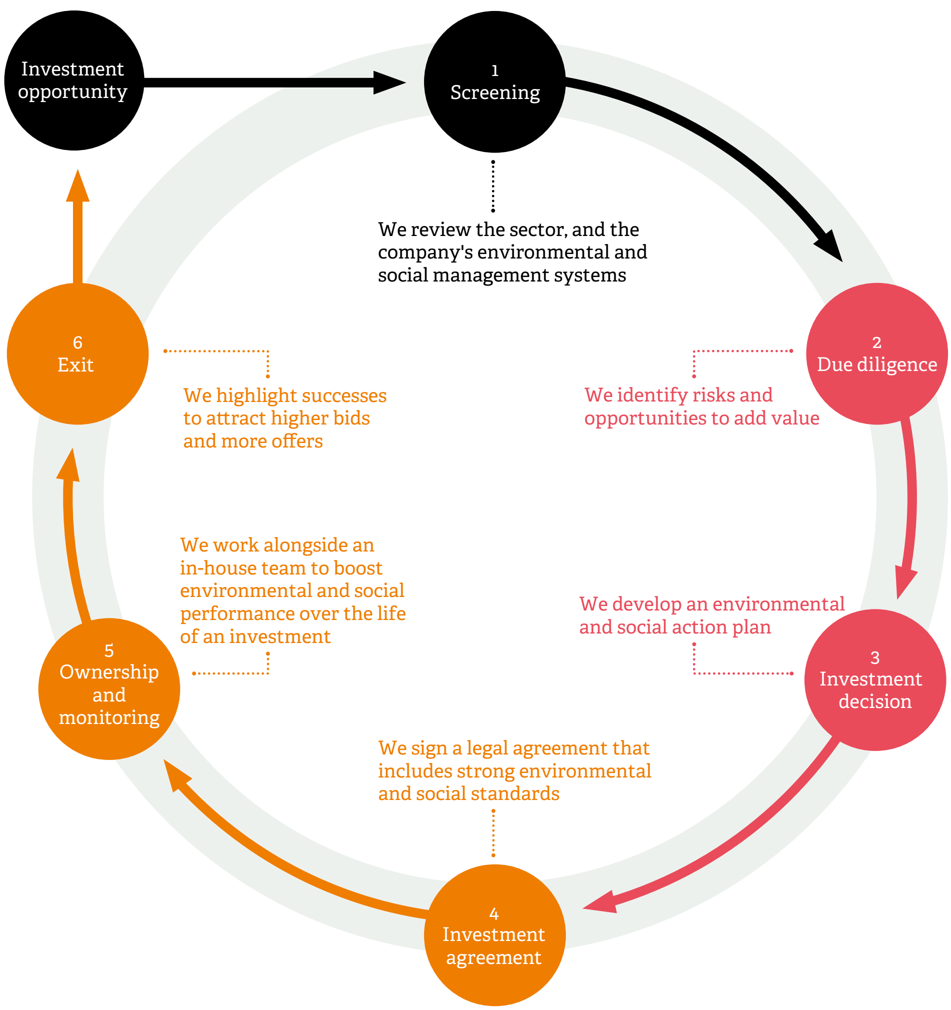
What are your reflections on this year's Annual Sustainability Review?
The review demonstrates and affirms DFID and CDC's commitment to sustainability in both policy and practice. We recognise that the 'journey' as well as the 'destination' are important, especially in the challenging territories where CDC invests. I am pleased to endorse this Annual Sustainability Review.

« Strong responsible investors like CDC help to embed sustainability in developing countries. »

How we implement our framework

Our ESR team is involved at every stage of the investment cycle.

Team members are E&S specialists from a variety of backgrounds, including consultancy, non-governmental organisations (NGOs), other DFIs and financial institutions. Each team member focuses on one of CDC's three core investment products: debt, direct equity and intermediated equity (that is, our fund investments). This allows us to tailor our approach to the nuances of each way of investing and to achieve the best E&S outcomes for every business we invest in.



How our partners implement our framework

Every fund that we invest in needs to develop a formal approach to implementing our Code of Responsible Investing. The core of this is developing an E&S management system which reflects the specific needs of the fund manager. Here two very different fund managers highlight their experiences in developing a robust approach to E&S management.

ICICI Venture

An institutional investor embeds E&S management in their newest fund.

Kundan Saran, Director, and Sharad Malpani, E&S Lead and Investment Principal, ICICI Venture

CDC invested £32.2 million in Dynamic India Fund S4 I in 2017, partly to embed responsible investment practices. The fund is managed by ICICI Venture, a wholly owned subsidiary of ICICI Bank. Here Kundan and Sharad discuss E&S integration in the fund.

Why does ICICI feel it is important for this new fund to have an increased focus on E&S management?
KS: We believe that institutional players, such as ICICI, have a significant role to play in developing a responsible investment ecosystem in India. Indeed, other Indian private equity firms are likely to be watching the experiences of firms like ICICI.

How has ICICI's E&S management system evolved for this new fund?
SM: ICICI has created its own E&S team, developed an E&S policy and implemented an E&S management system for this fund.

What impact does working with CDC have on your approach to E&S issues?
SM: From the outset, CDC's ESR team has provided very useful inputs. Their ongoing support has helped us to integrate E&S considerations into our investment process. This is definitely providing the right stimulus to engage more deeply with portfolio companies.

Could the E&S framework developed for this fund be rolled out across ICICI's wider business?
KS: We aspire to use the E&S experiences of Fund 4 to adopt such practices in other business areas.

Phi Capital

A first-time team's E&S journey.

R Haresh, Partner, and Varun Joshi, E&S Officer and Investment Professional, Phi Capital

Fibonacci India Fund Co Limited (Phi Capital) is an India-focused fund which invests in small and medium-sized enterprises (SMEs). CDC committed £20.2 million to Phi's first fund in 2016 and have supported their development. Here Haresh and Varun discuss Phi's approach to E&S issues.

Why did Phi want to focus on E&S?
RH: Phi aims to be a responsible investor and employer. Our investment strategy is to actively engage and partner with our portfolio companies. Therefore, having a clear process for managing E&S issues is necessary for creating long-term value in our portfolio.

Do you see any trends in the way Indian fund managers are approaching E&S issues?
VJ: In India, responsible investing is still at a nascent stage. Although more companies are releasing sustainability reports, E&S initiatives are often not a priority for SMEs.

What impact has working with CDC had on Phi's approach to E&S management?
RH: With CDC's help, Phi has embedded E&S at every stage of our investment process, right from the initial screening. E&S management is now an integral part of our early conversations with potential investees. CDC has also provided us with useful resources, such as their ESG Toolkit for Fund Managers and the ESG training workshops.

Do you expect Phi's focus on E&S to affect the fund's performance?
VJ: We feel that E&S factors should definitely be considered as a great value-addition tool. They can often also be key differentiators which enable a successful exit.

The impact we achieve

We want to improve the E&S performance of our portfolio companies across Africa and South Asia. We monitor our portfolio closely to ensure that the E&S policies and processes applied during the investment process are followed through over the full investment period. Examples of our impact are provided throughout this Annual Sustainability Review.

Our involvement often mobilises private investors to commit to a project, company or fund. Where an average private sector investor might not be focused on E&S issues, we aim to demonstrate that responsible investment is not just possible in challenging markets, it is beneficial.

We also want to spread good practice by building the capacity of fund managers, financial institutions and portfolio companies. The systems and expertise that we help companies to build should remain long after we have exited from a company.

« EDGE is about integrating sustainability into the core of a building's design. The efficient use of water, energy and materials make sense for business as well as the environment. CDC is a pioneer of green building investment and one of the early champions of EDGE. »

Prashant Kapoor – IFC, Principal Green Buildings Specialist and EDGE Lead

Rolling out green design standards in real estate developments

Resource-efficient buildings help to reduce greenhouse gas emissions and mitigate climate change. At the same time, they have a competitive advantage because they provide long-term cost savings on utilities and are often more attractive to buyers. Added to this, continuing rapid population growth and urbanisation in the coming decades in Africa and South Asia provides a significant opportunity for green building design to make a difference.

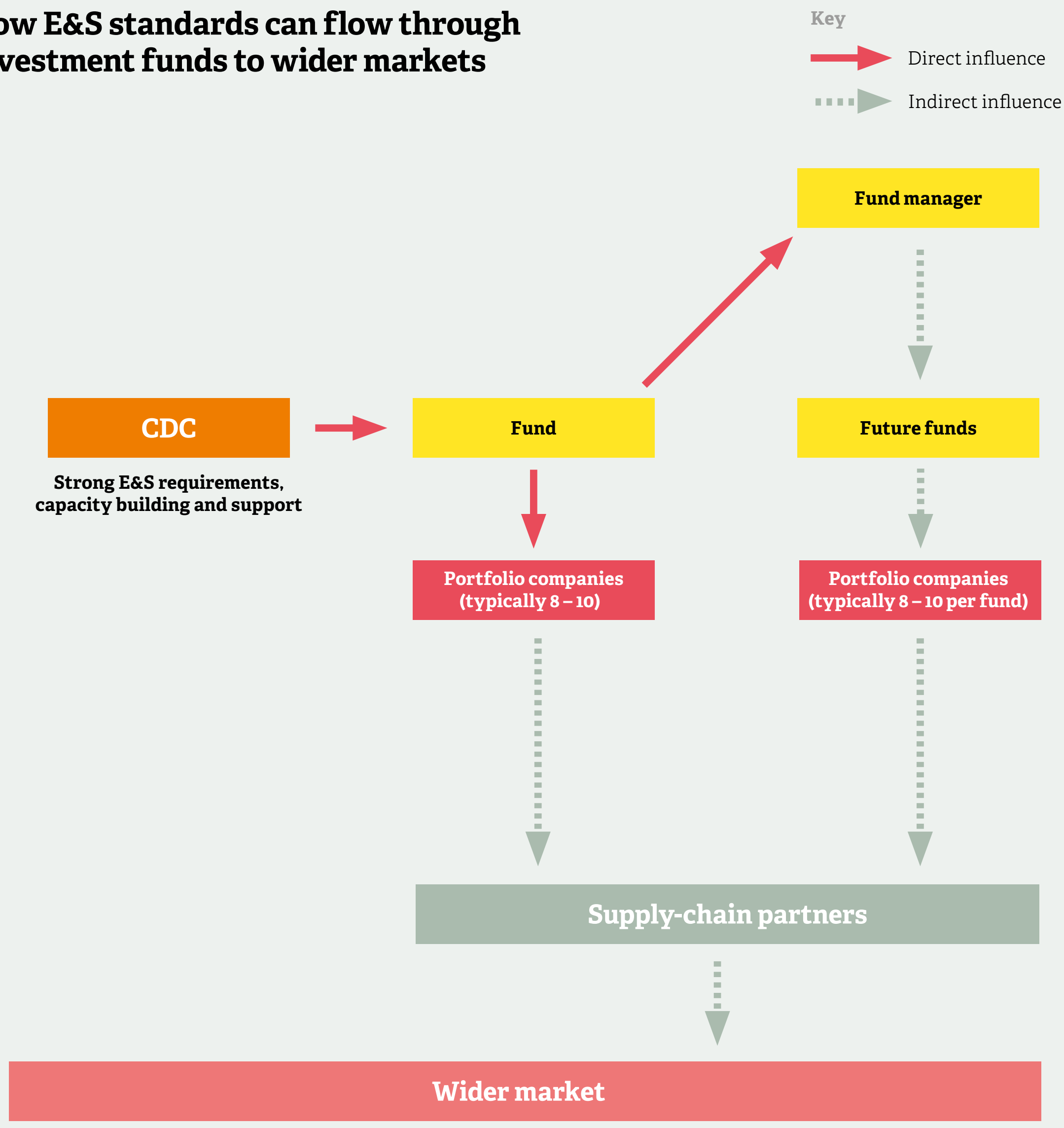
Seeking green building certification has increasingly become the norm in CDC's real estate portfolio. As we reported in our 2015–2016 **Annual Sustainability Review**, The Exchange – a Ghanaian residential and hotel development we co-invested in with Actis, one of our fund managers – became the first project in Africa to receive design-stage EDGE (Excellence in Design for Greater Efficiencies) certification in April 2016. The Exchange is set to achieve 30 per cent savings in energy and 25 per cent savings in water use compared with conventional buildings. We also hosted a workshop at our London offices with IFC in November 2016 to build awareness of EDGE among investors.

Since our investment in The Exchange, we have invested in further projects that will use a green-by-design approach. Indeed, we now expect companies and real estate-focused fund managers that approach us for investment to integrate EDGE (or an equivalent) into their developments.

Our impact on the market

We invest through fund managers for their local expertise and because they help us indirectly invest in far more businesses than we could commit to directly: currently over 1,100 companies. Working with responsible fund managers also allows us to scale our E&S impact. Even where we represent a small proportion of a fund, our strong E&S requirements cover all the fund's investments and allow the fund manager to gain valuable experience, which may influence the manager's other funds (even where CDC is not invested). With our E&S requirements filtering down through such a large portfolio of companies – and potentially their supply-chain partners – we hope to have a positive impact on wider markets.

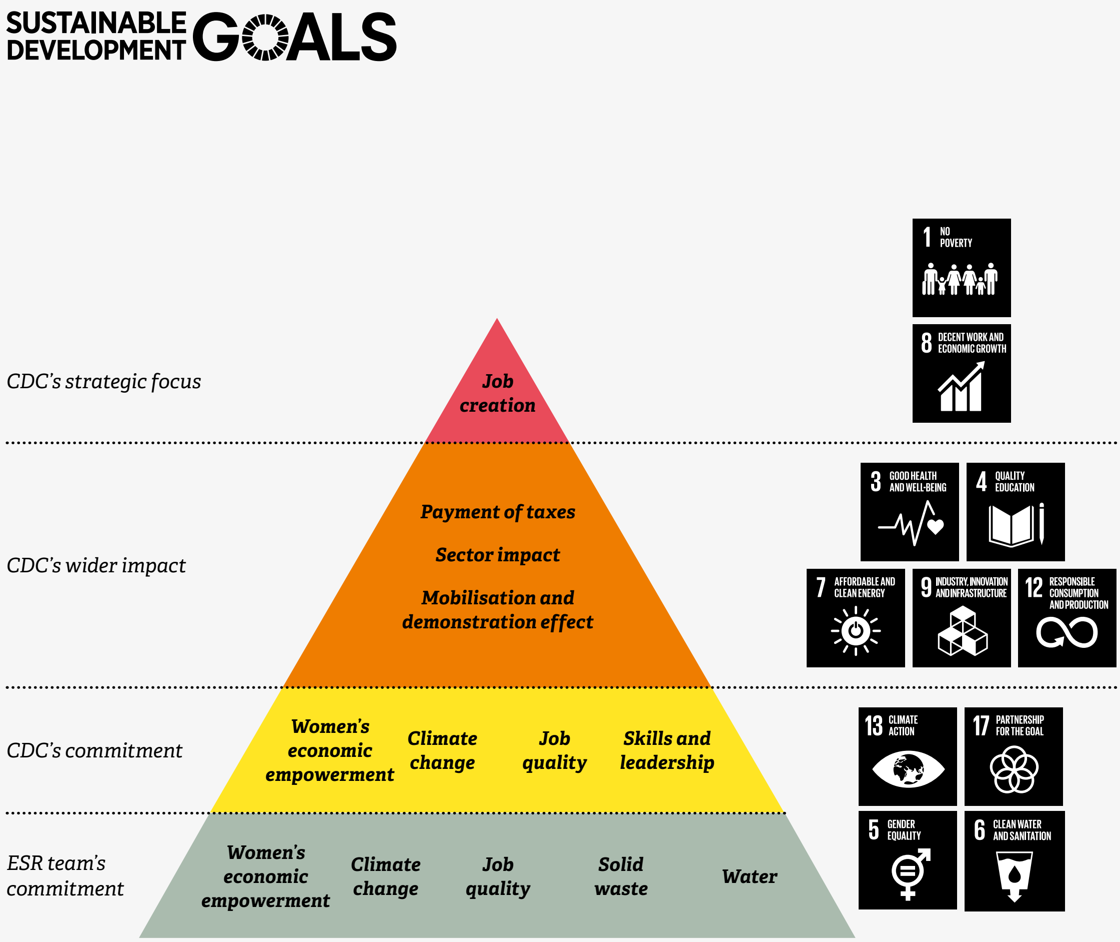
How E&S standards can flow through investment funds to wider markets



2 Our commitment to sustainable development

Our commitments and approach to the UN Global Goals are captured in our new **Strategic Framework 2017–2021: Investing to transform lives.**

The commitments to women's economic empowerment, climate change and job quality are core to our mandate. In addition, the ESR team will focus on solid waste and water over the next five years. We believe that these five themes collectively represent the biggest strategic opportunity for CDC to make a transformative impact. This and future annual sustainability reviews will be structured around these commitments.



Women's economic empowerment

The business case for promoting women's participation in economic activity is compelling, yet still undervalued.

As part of our five-year Strategic Framework, we have therefore committed to promoting women's economic empowerment across our investment activities.

To help us to do that, we are developing a gender strategy to demonstrate the beneficial impact that empowering women can have on businesses. We've started by analysing the opportunities to empower women that exist in our current portfolio. Next, we'll look at how we can integrate gender considerations into our investment process and, where relevant, support investee companies to improve the performance of their businesses by implementing gender-based interventions.

We believe that this approach will lead to more sustainable development impacts, such as improving women's access to products and services, providing better access to decent jobs, reducing the risk of gender-based violence and helping to stimulate broader economic growth.

AfricInvest Group, Pan-Africa

A fund's approach to empowering women

AfricInvest is a North Africa-based fund manager that focuses on high-growth sectors, including financial services, agribusiness, retail and education. We're currently invested in three funds managed by AfricInvest.

AfricInvest has a strong commitment to non-discrimination. They actively promote gender diversity in their investee companies and aim to improve women's access to jobs.

For example, at One Tech Holding Group, a company in AfricInvest III's portfolio, more than 45 per cent of employees are women. The North African company operates in several areas, including electrical components, plastic moulding, machinery and automotive parts. The company recognises that women are often particularly skilful at precision, quality-control work and management, which increases overall productivity and efficiency rates. The company is also conscious of the local context, providing a safe, culturally sensitive working environment which attracts more women to the workforce.

CRDB Bank, Tanzania

Tailoring financial services to women

We invested in CRDB Bank both directly and through the IFC Africa Capitalisation Fund in 2015. The bank has a programme to reach the unbanked and is specifically targeting women.

In developing markets, women are often held back from building their own businesses by barriers such as a lack of collateral, personal networks and mentoring. To address this challenge, CRDB have launched an empowerment scheme called the 'Women Access to Finance Initiative'. It will provide affordable loans, totalling £8.5 million, and a financial literacy programme for female entrepreneurs in Tanzania. Greater access to finance will support the growth of women-owned and -led SMEs. There should also be a 'trickle-down effect' on total female employment.

CRDB has also introduced a savings account called the 'Malkia' (which means 'Queen' in Swahili). It is designed to be used by women, with attractive interest rates and short-term financing guarantees for retail consumers. Increasing financial literacy and access to finance for previously underserved women should have benefits right across society and for business.

Arpita Raksit,
Gender Lead and
ESR Executive, CDC

Here we speak to Arpita to find out more about CDC's approach to women's economic empowerment.

What role can DFIs, such as CDC, have in driving women's economic empowerment?
Our mission is to support the development of businesses in Africa and South Asia so that they can create jobs, because we believe that decent jobs are the best route to improving lives. Empowering women can help ensure a fair distribution of job opportunities, which in turn leads to better outcomes for both businesses and society. DFIs are particularly well suited to empowering women through our investments because we're patient investors who seek both investment and developmental outcomes. We can therefore work with companies to demonstrate how empowering women can improve business performance and impact society over the long term.

What would CDC like to achieve by the end of its five-year strategy period?
Our portfolio is already doing a lot to support the economic empowerment of women. We estimate that 30 per cent of direct jobs in our portfolio are held by women. We have already identified many examples of investees within our portfolio thinking strategically about women's economic empowerment – from AfricInvest and CRDB, to HBL's Nisa banking platform for women in Pakistan.

Over the next five years, we aim to develop a more co-ordinated and systematic approach across our portfolio. One of our goals is to work with our investee companies to collect both qualitative and quantitative evidence which demonstrates the business case for empowering women and the impact made on women's lives. This type of evidence is currently lacking in our geographies and sectors, and so is crucial to bring about change.

Which industries in CDC's geographies are particularly well placed to empower women?
Opportunities to empower women can be found in every industry, but some industries offer clearer routes to do this, for example, agribusiness, healthcare, education and finance. By 2028, women will control an estimated 75 per cent of consumer spending worldwide, so there's clearly also significant scope for women's representation to grow in consumer-facing industries. More broadly, we believe that promoting good employment conditions for women can help companies to attract and retain the best talent, improve customer engagement and increase overall productivity.

Can you give an example of where empowering women has helped a CDC investee business to grow?
Mandala Apparels, which we're invested in through a fund manager called Aavishkaar, is a good example of how empowering women has helped a company and local community to grow. Mandala manufactures organic, Fairtrade textile products for clothing firms globally. The company was founded by a female entrepreneur, Anjali Schiavina, as a socially conscious business. She chose to employ women who had previously been working in informal fishing and farming activities across rural villages of Pondicherry and neighbouring areas of Tamil Nadu, knowing that local women are often particularly skilled at tailoring.

Today, Mandala employs 258 staff, over 70 per cent of whom are women. To help improve job quality, Mandala offers its employees skills training, counselling and a clear route to promotion. This has helped to support and retain talented women, and boost productivity. The company has a strong employee grievance mechanism, including a sexual harassment policy. Mandala also provides a safe and convenient employee bus to transport women to and from work.

« We can work with companies to demonstrate how empowering women can improve business performance and impact society over the long term. »

Climate change

Ian Brenkley,
ESR Executive, CDC

The private sector has a central role in mitigating and adapting to the impacts of climate change, as reflected in the 2016 Paris Climate Agreement.

We assess climate change risks and opportunities in potential investments during our due diligence process. This helps us to agree an action plan before we invest. After we've invested, we help support our investee companies to develop measures to reduce energy and water consumption, and greenhouse gas emissions. To accelerate this impact, we launched a Resource Efficiency Facility in 2017. This provides finance to our investee businesses to deliver efficiency improvements in energy, water and waste, and to install captive renewable energy generation.

The main objective of the facility is to help address market failures, particularly where the benefits of resource efficiency interventions are undervalued or not fully recognised by the private market. This then results in under-investment in resource efficiency improvements and sub-optimal allocation of capital. The Resource Efficiency Facility also aims to make sure our investments have the greatest development impact by improving the E&S performance of our portfolio companies and accelerating the uptake of climate mitigation and adaptation initiatives.

Support from the Resource Efficiency Facility is available in two tranches: the first provides grants for audits and feasibility studies to identify resource efficiency improvements; the second provides low-cost loans to implement identified improvements.

The facility is already bearing fruit:

- Rainbow Hospitals in India is using the Resource Efficiency Facility to install rooftop solar panels at five of its hospitals. In each year of operation, Rainbow expects to generate 345,000 kilowatt hours of renewable energy and save over 290 tonnes of carbon dioxide equivalent.
- We've helped Narayana Health, a multi-speciality healthcare provider in India, to identify opportunities to reduce its greenhouse gas emissions by partially changing its energy supply to renewables and through energy-efficiency measures. Combined, these interventions are expected to avoid around 2,500 tonnes of carbon dioxide equivalent a year, saving roughly the same as 13.4 million kilometres driven in an average car.
- We've worked with African Logistics Properties in Kenya to identify opportunities to reduce both the greenhouse gas emissions and freshwater use of the business. Our studies have shown that installing rooftop solar and rainwater-harvesting equipment at the company's new warehousing site in Nairobi could displace up to 300 tonnes of carbon dioxide equivalent and avoid around 17,000 cubic metres of freshwater inputs each year.

How CDC addresses climate change to help businesses grow

1.

Location
How does climate change affect the location of the business?

- Sea rise level
- Extreme weather events
- Changes in precipitation and fresh water availability
- Changes in temperature

2.

Sector
What climate risks and opportunities affect the sector?

- For example, in agribusiness there is a risk of climate change damaging crops
- In construction there is an opportunity to build eco-efficient buildings
- The infrastructure sector has an opportunity to invest in renewable energy generation

3.

Business
What climate risks and opportunities affect this particular business?

- Can it use climate-friendly technologies?
- Does it use significant water or energy?
- Is it at risk of flooding or water shortage?

Following these steps, we work with the investee:

- We agree an action plan with the business on how to mitigate risks and maximise opportunities.
- Then we support the business to make changes and become sustainable.

IHS Zambia Limited

Energy efficiency that improves networks

IHS Zambia Limited operates around 2,000 telecommunications towers. We participated in a loan to the company in 2015 to support the building of more towers to improve the accessibility and reliability of its coverage.

Over the past two years, the company has increasingly moved away from diesel generation and implemented energy-efficiency measures. These improvements have led to a significant reduction in diesel consumption and its associated greenhouse gas emissions. IHS Zambia operates more than 340 hybrid solar sites throughout the country and continues to roll out new green energy solution systems which optimise energy efficiency.

These measures have also helped improve the service offered to telecommunications customers more broadly. For instance, a more reliable energy supply has reduced the impact of power outages, leading to a more reliable network.

Job quality

Pelayo Menendez,
ESR Manager, and
Guy Alexander,
ESR Executive, CDC

Every business in our portfolio employs people directly. Each portfolio company also contributes to employment indirectly through its suppliers, contractors and sub-contractors. Job quality is therefore a major part of our day-to-day work. We help businesses to adopt good international standards, from improving occupational health and safety (OHS) to enhancing working conditions.

Under our new Strategic Framework, we want to increase our focus on job quality. Creating decent jobs is core to our mandate. Good quality jobs also lead to more successful businesses. For instance, good quality jobs help attract and retain talented employees, increase productivity and reduce lost-time incidents, among many other benefits.

Job quality is a broad and complex topic. Diverse factors can contribute to a 'good quality' job, including OHS, remuneration and benefits, working hours, work-life balance, non-discrimination, respect for physical and mental well-being, and learning and development in the workplace. The perceived quality of a job may also vary depending on the industry, country and the vulnerability of the employee. Our minimum expectations on labour and working conditions are set out in our Code of Responsible Investing. Under our new Strategic Framework, we will expand our understanding of job quality beyond these minimum expectations.

Areas of focus:

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

Improving occupational health and safety

Some industries in Africa and South Asia pose significant OHS risks. In the electricity transmission and distribution (T&D) sector, for example, a lack of investment before CDC's involvement might mean that the bulk of the network uses wooden poles. These are prone to rotting or being blown over, which creates a risk of electrocution because of fallen power lines. Similarly, employees and contractors often work with electricity at height. Instead of being deterred from investing by these risks, we see our role as being important to driving up standards, improving workers' job quality, and providing reliable electricity in Africa and South Asia. Through proactive engagement on OHS and operational management, we can reduce the risk of accidents and increase access to electricity.

By driving up standards, we can significantly reduce injuries and fatalities over the course of our investment. In our T&D portfolio, we typically introduce a variety of measures to reduce serious incidents, including: public awareness campaigns about the dangers of electricity, investing in better quality infrastructure, improved training and linking executive pay to OHS performance. For example, at Umeme – Uganda's largest electricity distributor – the number of network-related fatalities affecting members of the public fell from 17 in 2008 to zero in 2015 and 2016.[1]

We require every portfolio company to report serious incidents. We pay very careful attention to each incident that is reported and engage closely to understand the root causes. We then monitor the implementation of corrective actions, which are designed to prevent future incidents. We also offer guidance materials and training on OHS to our whole portfolio (see the skills and leadership section).

[1] *CDC was invested in Umeme through 'Actis Infrastructure 2 LP' between 2009 and 2016.*

Irrawaddy Green Tower Project, Myanmar

Improving E&S standards in a new market

Myanmar can be a challenging place to do business. Many sectors have historically had little exposure to good international industry practice. This can create challenges around environmental, health and safety (EHS) management because there is often a lack of domestic experience.

We invested £22.6 million in Irrawaddy in 2016 to support the construction and operation of telecommunications towers. With the support of CDC and other DFIs, Irrawaddy has become the backbone of Myanmar's telecommunications network, with 2,600 towers already built, around 1,100 co-location sites shared with other operators and 700 more under development.

Irrawaddy is implementing a programme to ensure that EHS issues are properly managed. As part of this programme, the company is delivering EHS training to staff and contractors, while continuously monitoring EHS practices in its operations. The company trained nearly 700 workers (staff and contractors) in 2016. This year, the number will be even higher.

These interventions have already contributed to significant improvements. Lost-time incidents have fallen year-on-year since 2015, and between January 2017 and July 2017, no lost-time accidents were recorded. By applying good EHS standards and training staff and contractors, Irrawaddy is helping to promote safer working practices.

Solid waste

Veronica di Bella
ESR Executive, and
Nomsa Fulbrook-Kagwe,
ESR Associate, CDC

With economic growth, resource scarcity and the increasing volumes of waste generated from business activity, there is an immediate and pressing need for better waste management. Solid waste can also present an opportunity for businesses to reduce costs and generate revenue.

Managing waste is an integral part of E&S responsibility, and forms part of the due diligence and monitoring that we do on investees. Yet, effective waste management remains a common challenge in many of our markets, largely because of a lack of suitable infrastructure and capacity.

That's why we are developing a solid waste strategy that will shape our wider approach to improving sustainable waste management practices across our portfolio. We have commissioned market studies to understand the solid waste landscape in our markets. Opportunities and solutions identified in these studies will be shared with our portfolio. We will also work with portfolio companies and fund managers to demonstrate that the proper treatment of solid waste can add value to businesses.

Narayana Health, India

Waste management that protects people and saves money

Effective waste management is essential in the healthcare sector. Evidence clearly demonstrates that improved management of healthcare waste reduces the exposure of hospital workers, waste handlers, patients and the community to infection and injury.

Since we invested in Narayana Health in India in 2014, we have been supporting its efforts to track its waste generation. For instance, we've helped commission a waste audit at Narayana's 'Health City' campus in Bangalore. Through this audit, the hospital will gain a better understanding of its resource use, as well as the volume of waste being generated. The study will also identify key areas and mechanisms through which resource use, and ultimately waste volumes, can be reduced.

The initial findings of the study suggest that, although strong waste management practices are being implemented, improvements – for example, in the separation of paper and plastic at source, and better use of waste-collection bags – could lead to considerable savings.

Water

Nikolas Stone
ESR Manager, CDC

Markets and societies rely on freshwater systems. As economies grow, competition for water increases. In an era of growing climate change and water scarcity, these pressures risk becoming insurmountable.

The increased pressure on water resources can create challenges for companies, including disruption to business continuity, conflicts between communities and other stakeholders, and the need to tighten regulation. While the business case to make efficiency improvements in water use is strong, the market price for water often underplays its true value and fails to incentivise improvements in efficiency.

We are taking a strategic approach to reducing water use in our portfolio. In our investments where water is the most critical for operations, we plan to undertake regional water-risk assessments. Since the market for water is a weak indicator of its availability, this risk-assessment process will allow us to identify where a targeted reduction in water use will bring about the greatest improvements for the business and other users. Using this in combination with the Resource Efficiency Facility, we aim to reduce water consumption across our portfolio and improve the longer-term sustainability of individual companies.

Jacoma Estates, Malawi

Building a climate change-resilient business

Malawi is one of the countries most vulnerable to the effects of climate change and one of the least resilient. It has experienced devastating floods and droughts in recent years. Understanding and mitigating climate change risks is therefore fundamental to the success of the agricultural businesses we back in Malawi.

In December 2016, we invested £6.4 million in Jacoma Estates Limited – which farms macadamia nuts, chilli and paprika in northern Malawi – to help expand its farming operations and provide irrigation to smallholders. We've been working with the company to help it analyse the impacts of climate change on water resource availability at its farms. With support from the local Mzuzu University and our technical assistance, Jacoma is implementing water-resource management plans to minimise water consumption and maximise water-use efficiency in its own operations and those of neighbouring smallholder farmers.

Skills and leadership

Guidance

We are constantly looking for ways to provide guidance that improve the E&S and business integrity performance of our portfolio. We are invested in over 1,200 companies and over 150 funds, so we have a unique view of our markets. This has allowed us to provide reports on preventing accidents, completing effective E&S due diligence and managing legacy land issues, among many other topics.

All our guidance materials are included in our **ESG Toolkit for Fund Managers**. This is our third Toolkit – launched in June 2015 – and the first developed as an online resource. Because it is web-enabled, we can continually update our guidance, add new resources and provide news. For instance, we have developed and updated five E&S briefing notes and sector profiles on the Toolkit since April 2016. These include a new E&S briefing note on human rights, developed in association with Shift, an international human rights NGO. We also updated our guidance on land acquisition and involuntary resettlement, and agriculture and aquaculture to more fully address land-related impacts and reflect the Voluntary Guidelines on the Responsible Governance of Tenure.

During late 2017 and early 2018 we will be adding the following:
+ E&S briefing note: Climate change
+ E&S briefing note: Cumulative impacts
+ Sector profile: Healthcare
+ Sector profile: Pharmaceuticals
+ ESG management systems note: Board oversight of ESG

The Toolkit is freely available in order to reach markets far beyond our investees.

Creating guidance for challenging sectors

With climate change posing a growing risk, it is vital to fully consider the climate change implications of projects using heavy fuel oil (HFO). In our investment process, we have a strong preference for renewable energy projects. However, in some of the poorest countries, where there are few alternatives, the developmental benefits of providing electricity through HFO may need to be considered. To help ensure that investors make an informed decision, we are in the process of developing an HFO guidance note. It will provide an initial screening to determine whether an HFO-fired plant warrants further detailed consideration for investment. It will apply to both existing and new HFO plants.

Training

We launched an updated ESG workshop programme for our fund managers and their portfolio companies in 2017. The new programme reflects feedback from fund managers who attended in previous years. It is designed to address specific areas of interest and gaps in capacity.

The 2017–2018 programme includes the following modules:
+ Integrating E&S into the investment cycle of a fund
+ IFC Performance Standards as a guide to effective due diligence and ownership
+ E&S management systems for companies
+ Labour and working conditions
+ Occupational health and safety
+ Board oversight of E&S and business integrity
+ Business integrity

We hold the four-day workshop in three different locations each year: London (May 2017), Lagos (June 2017), Mumbai (October 2017), Nairobi (2018), Johannesburg (2018) and New Delhi or Mumbai (2018 – location TBC). The 2017–2018 workshops are being co-sponsored by Norfund, the Norwegian DFI, whose fund managers can also attend. Around 150 people in total from fund managers and portfolio companies attended the first two workshops in 2017. Since our ESG workshop programme began in 2010, we have reached a large proportion of the private equity industry in Africa and – to a lesser extent – South Asia.

Engagement

Quarterly E&S newsletter: We launched a quarterly E&S newsletter in February 2017. It is designed to keep our investees up to date with E&S developments at CDC and in the wider responsible investment market.

Conferences: We regularly contribute to different E&S-focused conferences and workshops. During the year, members of the ESR team spoke at events hosted by Private Equity International, the Principles of Responsible Investment, EMPEA (the Emerging Markets Private Equity Association), the Financial Times and the UN Forum on Business and Human Rights, among others.

E&S podcasts: We launched a series of podcasts focused on different E&S topics in 2017. The podcasts provide another way to share good practice and to leverage the interesting E&S conversations we have with diverse stakeholders.

A view from one of our training partners

Rosalind Kainyah MBE, founder and Managing Director, and Imoni Akpofure, Senior Associate, Kina Advisory

One of the gaps CDC has identified is the capacity of boards to manage E&S and business integrity issues.

So in 2017, we asked Kina Advisory, a socio-economic consultancy focused on Africa, to develop and deliver a series of half-day training modules on 'board oversight of E&S and business integrity'. Here Rosalind and Imoni discuss the training modules.

What's covered in the workshop?
RK: The workshop aims to develop the participants' understanding of how to effectively incorporate an E&S and business integrity agenda within a board and the important role that a board can have in driving E&S and business integrity performance.

Who's been attending?
IA: The sessions have mainly been attended by those in director and executive management roles within private equity funds and their portfolio companies. A smaller number of E&S and finance managers have also attended.

Why is this kind of training needed?
RK: There is a strong link between business success and good E&S and business integrity performance. Many studies, as well as our own experience, have shown that superior E&S and business integrity performance results in a long-term increase in shareholder value. Conversely, there are many examples where a lack of board oversight or poor performance has significantly eroded or completely wiped out value. The ability to demonstrate that these risks are adequately managed is a competitive advantage. The ultimate responsibility for a company's governance rests with the board of directors. Hence, directors need to understand and manage E&S and business integrity risks, as they do other risks.

« The ultimate responsibility for a company's governance rests with the board of directors. So directors need to understand and manage E&S and business integrity risks. »

What challenges have participants mentioned?
IA: Participants brought up a number of challenges during the workshop. For example, how to create a culture where E&S and business integrity issues are seen as relevant to the core business and therefore important to the board; how to address cultural differences in the perception and understanding of business integrity-related issues; and how to adopt and tailor international E&S and business integrity standards for SMEs in emerging markets.

What are the potential benefits of better board oversight of E&S and business integrity?
RK: When a board has an appropriately robust governance structure that allows E&S and business integrity risks to be identified, managed and overseen effectively, there are positive commercial, reputational, societal and compliance effects. The ability of a company to secure and maintain a 'licence to operate', attain an optimal return on investment and create sustainable value is greatly improved. Your business is able to reduce risk, control costs, attract investment, reduce the depletion of natural resources and demonstrate clear accountability, all of which have a positive effect on a company's bottom line.

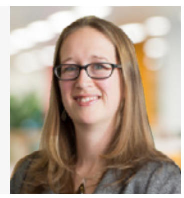
Environmental and Social Responsibility team

In recognition of the importance that we place on E&S impact and performance, the ESR team has continued to grow over the past year.

Mark Eckstein
Director, ESR

Ritu Kumar
Director, ESR

Dr Samantha Lacey
Manager, ESR



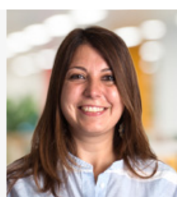
Pelayo Menendez
Manager, ESR

Nikolas Stone
Manager, ESR

Guy Alexander
Executive, ESR

Ian Brenkley
Executive, ESR

Dr Veronica Di Bella
Executive, ESR

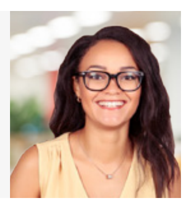


Arpita Raksit
Gender Lead and Executive, ESR

Matthew Watts
Executive, ESR

Robert Borthwick
Associate, ESR

Nomsa Fulbrook-Kagwe
Associate, ESR



Genevieve Joy
Associate, ESR

Lara Martin
Associate, ESR

Laura Jimenez
Personal Assistant, Responsible Investment team

Anne-Marie Mugwe
Personal Assistant, ESR team

Sustainability in CDC's corporate operations

High sustainability standards in the workplace

Our Green Initiatives Committee was created in 2016 to ensure that our corporate operations continue to deliver the same high sustainability standards that we expect from our portfolio. The committee meets on a quarterly basis. Over the past year, we have focused on improving recycling in our London office by tracking waste volumes and introducing new bins. We are also introducing a new printing system, which we expect to significantly reduce paper consumption and printing costs.

We are continuing to track and offset our corporate carbon emissions. In 2016, our footprint was 5,301 tonnes of carbon dioxide. This compares with 3,615 tonnes in 2015. The increase is likely to be linked to growing staff numbers and a portfolio with more direct investees, which results in more air travel to monitor investments. We continue to offset our emissions through ClimateCare projects, which also create local jobs. Our London office uses 100 per cent renewable energy and motion-sensitive lighting. Our Ride 2 Work scheme and cycle-friendly facilities encourage commuting via bicycle.

Glossary of terms

CDC	CDC Group plc
DFI	Development finance institution
DFID	The UK's Department for International Development
E&S	Environmental and social
EDGE	Excellence in Design for Greater Efficiencies
EHS	Environmental, health and safety
ESR team	Environmental and Social Responsibility team
HFO	Heavy fuel oil
IFC	International Finance Corporation
NGO	Non-governmental organisation
OHS	Occupational health and safety
SME	Small and medium-sized enterprise
T&D	Transmission and distribution
UN Global Goals	UN Global Goals on Sustainable Development (also known as the Sustainable Development Goals (SDGs))

Data disclaimer

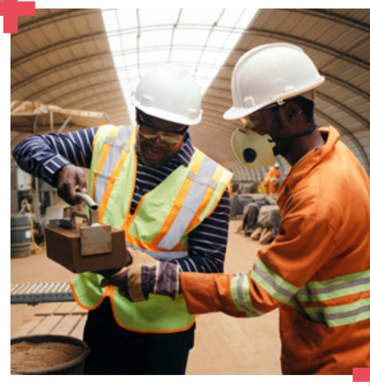
While we have used our reasonable efforts to ensure the accuracy of the data used in this report, data on employment has not been audited or independently verified. Data on employment has been received from many but not all of CDC's investee businesses. We have received this data from our investment partners, including the fund managers that have invested our capital (and the capital of others) in these businesses. Data may be from different points in time but was requested to relate as closely as possible to year end 2016. Employment data may sometimes include contract workers and other non-permanent workers. This data should be read as being indicative of magnitude rather than exact figures.

Photography

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

Print

This review is produced on Cocoon Offset paper, which contains 100 per cent recycled waste and is Forestry Stewardship Council certified. The mill and the printer are both certified to ISO 14001 environmental management system and registered to EMAS, the Eco Management and Audit Scheme.



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