CDC
Investment works

Disclosure Statement

Operating Principles for Impact Management

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We were a founding signatory to the Operating Principles for Impact Management (the Impact Principles). The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.[1] We are pleased that 100 impact investors have now signed up to the Impact Principles.

This Disclosure Statement affirms that our activities, including (a) impact management systems; (b) policies and practices; and (c) investment services (including debt, equity, trade and supply chain finance, asset management, syndications, derivatives and structured finance, and blended finance instruments) are managed in alignment with the Impact Principles. Total assets under management in alignment with the Impact Principles are $9.2 billion[2] as of 31 December 2020.[3] Last year we engaged the services of BlueMark (then Tideline Inc) to undertake an independent verification of our Disclosure Statement. We took the findings of that exercise seriously, and have worked to bring our policies, procedures and practice up to the highest standards on all Impact Principles. That work will be completed in time for our new five-year strategy period 2022-26, and we will seek further independent verification next year.

Nick O'Donohoe
Chief Executive Officer, CDC
8 July 2021

Liz Lloyd
Chief Impact Officer, CDC
8 July 2021

1 CDC acknowledges that it is a high-level description prepared for public disclosure and may not, therefore, include every aspect of the systems and processes that each reader may consider important.

2 Includes CDC's own commitments, funds under management and direct mobilized funds. The covered assets exclude platforms: Gridworks, Globeleq and MedAccess which have independent boards, shareholders and funders.

3 The sole purpose of this Disclosure Statement is to fulfil CDC's obligations pursuant to Principle 9. This document shall not constitute and should not be construed as an offer, solicitation or invitation to buy or sell any securities, financial instruments or services whether described herein or otherwise, or as any prospectus or investment- related advice in relation thereto, nor is it intended to form the basis of a decision to participate in any investment. CDC makes no guarantee or other promise as to any outcomes, including any financial or development impact results that may be obtained from the practices disclosed in this statement. While past performance may be analysed in this Disclosure Statement, past performance should not be considered indicative of future performance. Accordingly, CDC shall not have any liability to any of the recipients of this Disclosure Statement, nor to any other party in connection with or arising in any way from, or in relation to, the information or any opinions expressed in this Disclosure Statement, and CDC does not accept any responsibility whatsoever for any action taken, or omitted to be taken by any party on the basis of any matter contained in, or omitted from, the Disclosure Statement.

Principle 1

Define strategic impact objective(s), consistent with the investment strategy

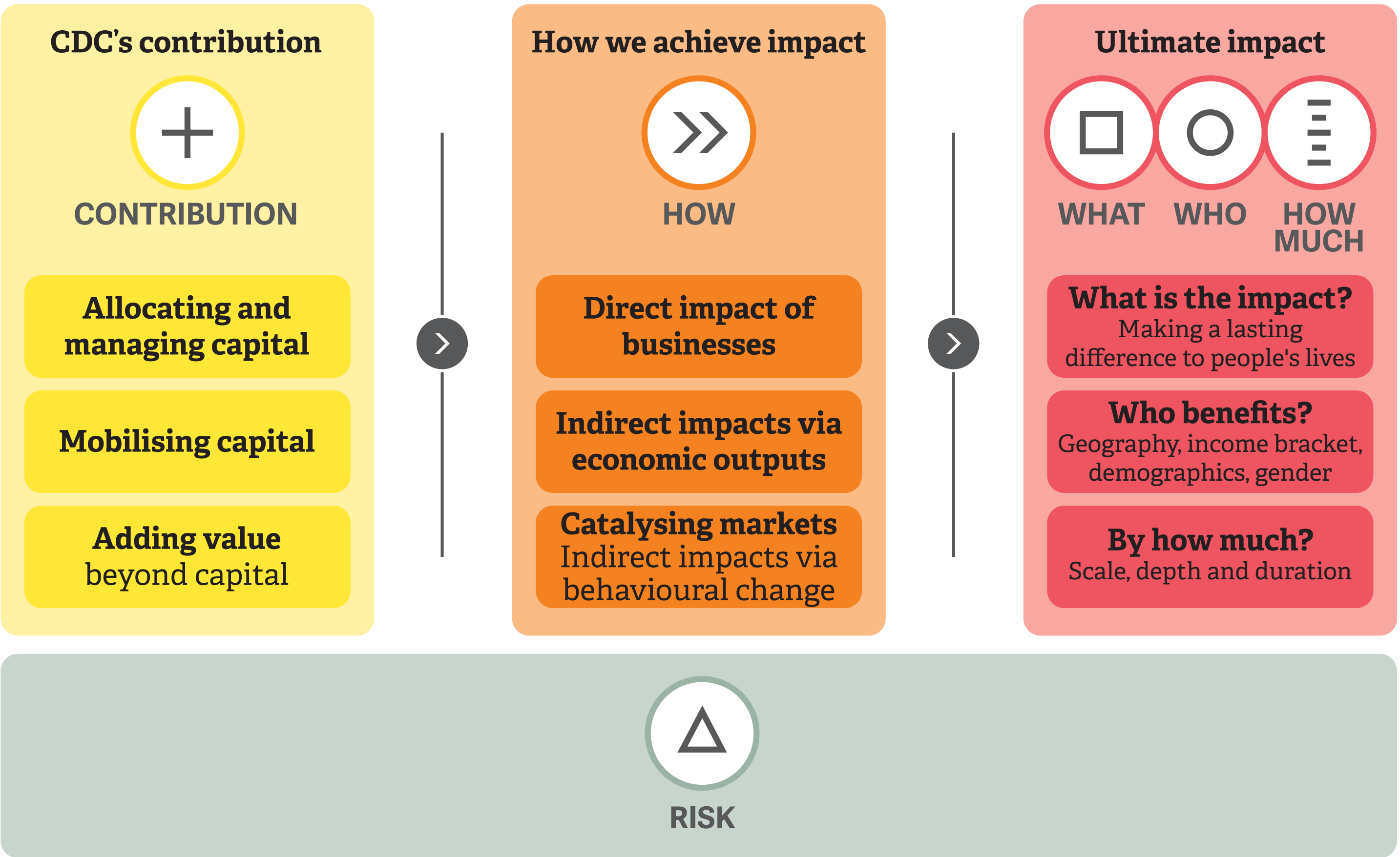
Principle states: The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- We are the UK's development finance institution, wholly owned by the UK Government. We help solve the biggest global development challenges by investing patient, flexible capital to support private sector growth and innovation.
- In our 2017 – 2021 strategy we outlined a strategic focus on job creation as well as a geographic focus and sectoral focus. We narrowed our geographical focus to Africa and South Asia, where a majority of the world's poorest people live, and prioritised investing in sectors where growth leads to jobs. The strategy also outlined our wider impacts (payment of taxes, sector impacts and mobilisation and demonstration effects) and commitments (gender, climate change, job quality and skills and leadership).
- Our 2017-2021 strategy and our forthcoming 2022-2027 strategy are both aligned with the Sustainable Development Goals (SDGs), where achievement of many of the SDGs will lead to the elimination of poverty (SDG 1).

Our investments in financial institutions support progress toward many of the SDGs, specifically SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Our broader impact includes helping remove market constraints in energy and infrastructure (SDG 7 and 9) and improving access to essential goods and services, such as health and education (SDG 3 and 4), both directly and through tax contributions. We also mobilise additional sources of capital from partners because this is key to increasing the financing available to achieve the Goals (SDG 17). We are committed to supporting women's economic empowerment (SDG 5) and combatting climate change (SDG 13).

- We have developed an overarching Impact Framework (see page 4) that provides for a consistent approach to thinking of and articulating development impact across sectors and products. It adopts the Impact Management Project's (IMP's) definition of impact underpinned by sector-specific impact frameworks, as well as a standardised approach for assessing the development impact for each transaction.
  - **Sector impact frameworks** identify the specific impact(s) we seek to achieve in a sector and align this impact to our overarching Impact Framework and the SDGs.
  - **Impact dashboards and theses** are specific to each investment and articulate the development impact that we expect from each transaction enabling effective decision making around impact (see page 4).
  - **Impact monitoring plans** allow us to track the performance of our investments against pre-defined targets and KPIs (as defined in the Impact dashboards).
  - **Impact at exit reviews** help us take the decision on whether and how we should exit the investment, taking impact into account.

Impact Framework



Impact Dashboard

WHAT	The type of impact the investment is contributing to, linked to the Sustainable Development Goals
HOW	Understanding how the company contributes to impact
WHO	Which stakeholders are reached and their circumstances prior to the investment
HOW MUCH	How many stakeholders are reached and the degree of change they experience
RISK	The likelihood the impact will be different than expected
CONTRIBUTION	CDC's role in achieving the impact

Principle 2

Manage strategic impact on a portfolio basis

Principle states: The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Our development impact grid is designed as a first-level investment screening tool that grades the investment difficulty of each country (combining data on fragility, market size, income levels, ability to access finance and the ease of doing business) and the propensity of a sector to create jobs and creates a single score for each investment.
- We independently assure the development impact grid score annually.
- The portfolio scores are regularly monitored by management to ensure the portfolio is maintained above the target level. The grid score is a key component in the calculation of our staff's long-term incentive plan alongside financial performance.
- In 2022, we will add new dimensions to our investment screening tool, while preserving and strengthening its assurance process and positioning as an incentiviser of performance.
- The annual monitoring process provides us with a consistent approach to establish and monitor portfolio impact performance, and manage impact achievements. A full review of portfolio metrics (aligned to the strategic objectives e.g. employment, mobilisation and local taxes) and sector metrics (aligned to the sector strategies) are collected, aggregated, published and trends analysed to monitor and manage the overall portfolio impact. A separate review of our Catalyst Strategies portfolio is conducted annually, alongside the annual grid score assessment.

Principle 3

Establish the Manager's contribution to the achievement of impact

Principle states: The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- Under our Investment Policy, agreed with our shareholder FCDO, which currently governs our operations, we consider, in each investment decision, our additionality in terms of contribution.
- Our contribution may arise from the provision or terms of our finance, role and influence as an investor, or the services that we provide. This considers the nature of our contribution, our confidence that we are providing support that commercial investors would not and the scale of difference that our contribution makes to the expected development impact.
- We will only make an investment when we believe that it will contribute meaningfully to development impact. The contribution is documented in detail in the investment papers.
- We commission regular independent performance reviews on the delivery of non-financial contributions.

Principle 4

Assess the expected impact of each investment. Based on a systematic approach

Principle states: For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer the fundamental questions: 1) What is the intended impact? 2) Who experiences the intended impact? 3) How significant in the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact.

In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relevant size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

- We have adopted a consistent structure and format for assessing and presenting analysis on development impact in investment decision making. This structure takes into account the six dimensions of impact that are part of our overarching Impact Framework: What, How, Who, How Much, Contribution and Risks. Approvals for new investments, regardless of the product or sector, must include a fully completed impact assessment. This provides a credible and evidenced case on whether net impact is commensurate with the capital and other resources deployed.
- We are an active investor, looking to add value to maximise the aggregate development impact generated by our investment portfolio. We have a set of resources which can be used on a case-by-case basis to actively help investees increase their commercial performance and development impact. Our Gender and Climate teams provide additional expertise and resources for this purpose. The Impact Group manages CDC Plus, a technical assistance programme financed from FCDO, that can be allocated to pipeline and portfolio companies and broader market shaping.
- We consider further harmonisation of impact measurement, indicators and reporting an important focus area. We work with our fellow European Development Finance Institutions (EDFIs) on this, currently leading an EDFI initiative to harmonize the econometric modelling of impact on (direct and indirect) jobs. We also actively participate in numerous platforms to advance impact measurement and harmonisation, notably the Joint Impact Indicators and the Joint Impact Model.

Principle 5

Assess, address, monitor, and manage potential negative impacts of each investment

Principle states: For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- We invest in a responsible fashion, considering environmental, social and governance (ESG) matters. Our ESG requirements are defined in our Code of Responsible Investing (the Code) which uses IFC Performance Standards as the basis of our ESG requirements. The Code describes our role and responsibilities in helping our investees implement the Code, as well as commitments to monitor implementation.
- The Code describes ESG requirements applicable to all fund managers, financial institutions and portfolio companies, separated into E&S and business integrity sections and covering areas such as working conditions, labour rights, access to remedy and sanctions. It identifies additional ESG requirements which apply in certain circumstances where higher ESG risks or opportunities may be apparent. We support ESG in Africa and South Asia through a popular online toolkit and in-depth training events.
- We conduct ESG due diligence for all investments. This includes evaluating both the current state of the investees ESG management systems and practices and their commitment to making improvements and adhering to industry good practices. It is expected that all investees are in line with the Code or work towards adherence as a condition of investment.
- ESG due diligence is reviewed by management as well as through the Investment Committee process (which includes both internal and external parties). Regular reporting on ESG issues is provided to the Board, specifically the Development Committee.
- We use a risk-based approach to focus resources and attention to investments based on an assessment of the potential of an ESG incident occurring and our ability to provide additional value.

Principle 6

Monitor the progress of each investment in achieving impact against expectation and respond appropriately

Principle states: The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate actions. The Manager shall also seek to use the results framework to capture investment outcomes.

- We use a risk-based approach to focus resources and attention to investments based on an assessment of the potential of an ESG incident occurring and our ability to provide additional value.
- Quarterly portfolio review meetings are the forum through which management and investment committee members regularly monitor the status of the impact achieved as well as the financial performance. These include investments where impact is not performing as expected or where we have an opportunity to exert influence to materially improve their impact. This includes reference to the initial impact thesis and any changes against it.
- Our Development Impact team provides ongoing evaluation of investees which includes assessing progress and outcomes against a base case and the potential for additional value-add activities. Monitoring may include activities such as site-visits, meetings with management, assessments of management reporting and reports from third-party consultants.

Principle 7

Conduct exits considering the effect on sustained impact

Principle states: When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effects which the timing, structure, and process of its exit will have on the sustainability of the impact.

- In any exit from, or disposal of any investment, we seek, where we have discretion to do so, to ensure that such an exit or disposal is consistent with the achievement of our mission and objectives (both financial and developmental) and within the scope of the Investment Code.
- When exits are sought we require a formal approval process which sets out a clear rationale for the exit, with commercial returns and development impact implications assessed equally (including analysis relative to original expectations). How development impact will be sustained after our exit is an important factor that is reviewed by management. The development impact considerations are analysed in depth through an exit review, with lessons learned.

Principle 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

Principle states: The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Review and documentation of impact performance takes place in quarterly portfolio reviews and exit reviews, supplemented by an evaluation and learning programme covering each sector, co-managed with FCDO and using independent evaluators overseen by an expert steering group.
- We also commission Insight studies on impact performance. Additionally, our Evaluations team annually compiles a portfolio-wide impact results analysis alongside the impact disclosures in our Annual Review.
- As part of our commitment to drawing out and learning lessons from our investments, our Chief Investment Officer leads a formal programme of lessons learned reviews on key development impact outcomes of our investments. The aim of the process is to strengthen our internal feedback loops through taking deep dives into transactions, both successful and unsuccessful, where outcomes warrant an in- depth review. The reviews focus on what lessons we should learn, and what we should do differently or more consistently in the future. They look to draw lessons for all relevant levels in the organisation, for example deal teams, Investment Committee, Executive Committee and the Board, focusing on forward-thinking collective lessons, rather than individual accountability.
- In addition to scrutiny from our Internal Audit function, impact performance is also reviewed quarterly by FCDO, the shareholder, and regularly by UK government agencies such as the National Audit Office and Independent Commission on Aid Impact

Principle 9

Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment

Principle states: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Note is our annual confirmation of the alignment of our procedures with the Impact Principles.
- An independent assurance report will be sought at the commencement of the next strategy period (2022-26).

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