



# **CDC high level business plan 2011-2015**



CDC Group plc

May 2011

## 1. Vision



*“So - if you’re in the business of helping reduce poverty, you have to believe in economic development and growth. Growth that is broad-based, inclusive and sustainable; in which all people benefit from the proceeds of prosperity; and in which even the poorest have access to the opportunities and markets that it creates.”*

Rt Hon Andrew Mitchell  
Secretary of State for International Development  
12 October 2010

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CDC is the UK government’s development finance institution (DFI), owned by the Department for International Development (DFID).

CDC is one element of the UK’s endeavour to reduce poverty and help people prosper in the poorest countries of the world. As an FSA regulated plc with its own board, CDC’s relationship with DFID is arm’s length, yet collaborative.

CDC is a provider of scarce patient capital to private sector entrepreneurs in the poorer developing countries.

## 1. Vision (continued)



### The new CDC

A flexible, transparent, distinctive development finance institution that targets investments with the highest development impact and is prepared to take greater risks to achieve this

Concentrated on the poorest countries of sub-Saharan Africa and South Asia, using a broader range of financial instruments to stimulate the private sector for the benefit of the poor

Working with different development, financial and other organisations to assess need, invest capital and expertise and evaluate impact

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### CDC's mission:

To be a **pioneering** investor, stimulating the private sector and demonstrating the power of enterprise and private capital to reduce poverty in the **poorest places** of the world



# 1. Vision (continued)



## How will CDC achieve this?

CDC will be nimble, opportunistic and innovative to achieve this through working with a range of partners; new ones and existing ones.

### **By using a wider range of instruments**

including debt, guarantees and direct equity investment, as well as through externally managed private equity funds.

### **By being more pioneering and innovative**

CDC will be unafraid to explore difficult investment opportunities promising the greatest potential development returns in frontier places. CDC will have a greater appetite for risk.

### **By applying rigorous developmental and commercial appraisal techniques**

underpinned by strong value for money considerations to ensure our investments have the best chance of yielding good development and financial returns.

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## Where will CDC operate?

Under the new Investment Policy CDC's capital will be focused in sub-Saharan Africa and South Asia where 70% of the world's poor live.

No new commitments will be made outside these regions.

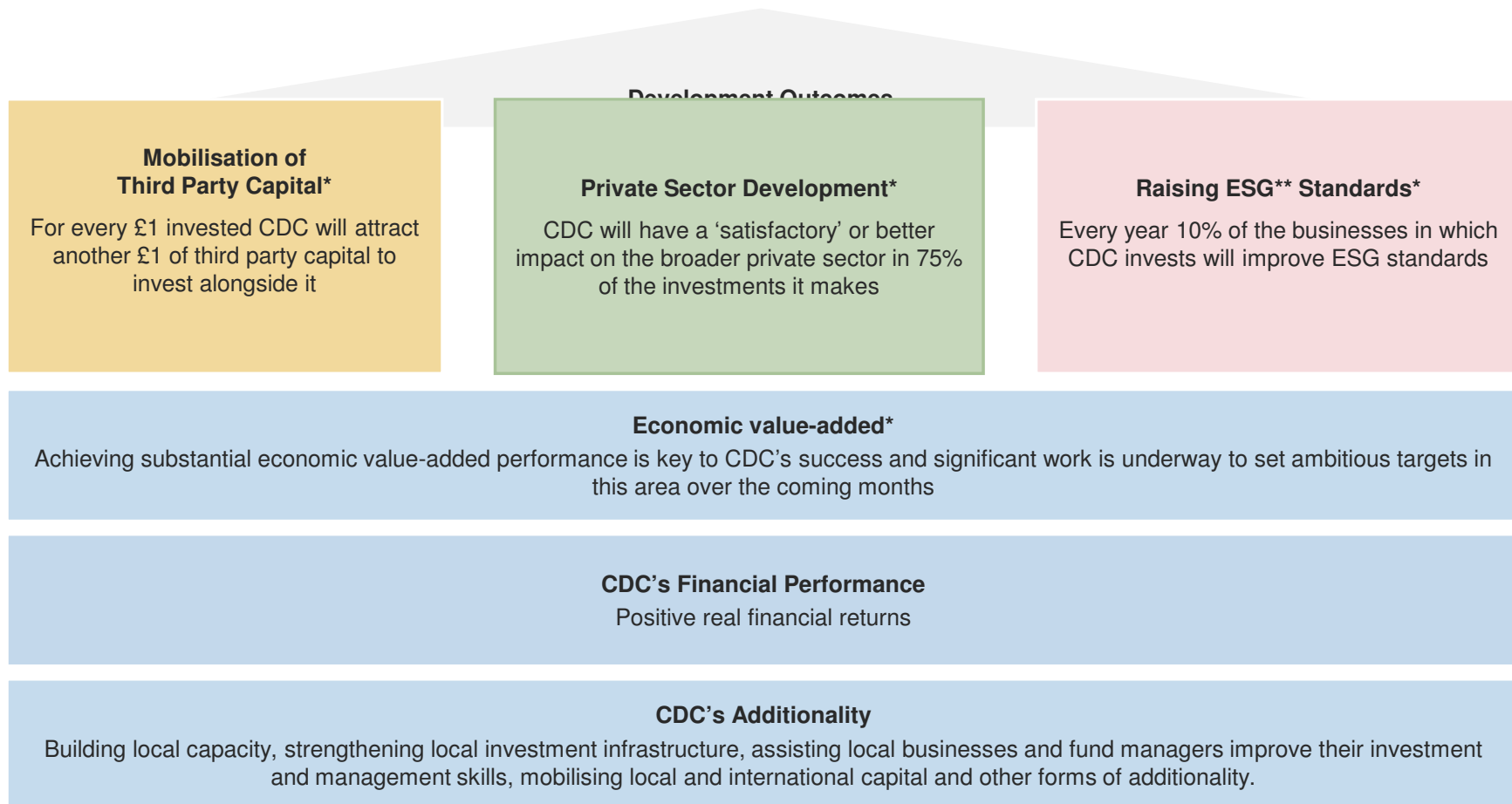
## Summary

CDC will explore difficult investment places. It will continue to use its established and successful investment appraisal methodologies, but will accept more financial risk in pursuit of greater development impact.

## 2. Why: development outcomes

### Stretching ambitions

For the period of this business plan 2011 – 2015 CDC's development objectives will be:



\* For detailed definition of indicators please see [www.cdcgroup.com](http://www.cdcgroup.com)

\*\* Environmental, social and governance

## 2. Why: development outcomes (continued)

### Stretching ambitions

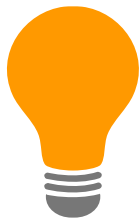
Investment in all sectors can drive development.  
Good sustainable development can take many forms.  
For example:



Improved efficiency at an agri-business company:  
**improved access to markets and cheaper produce available locally**



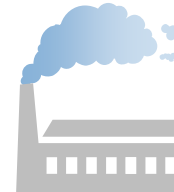
Taxes paid by a start-up technology company:  
**the government can use them to build schools and hospitals**



Bringing electricity to families, businesses and communities:  
**new businesses flourish thanks to the improved infrastructure**



Support and advice for local entrepreneurs and improvements to the business environment:  
**companies are founded and grow**



Clean technology investment which means that a factory stops polluting the air:  
**local community is healthier**

### Measuring development, before and after

By the end of 2011 CDC will have established a methodology to assess the development potential of each investment during the appraisal stage.

CDC will update and enhance its development evaluation tool in line with the leading edge methodologies of the International Finance Corporation (IFC) and other DFIs, and with consideration given to leading academic research.

### 3. Where: CDC's universe



**25%\*** of the world's population live on less than \$1.25 per day.

Alleviating this poverty is a massive task and CDC's capital is a small part of global development finance. It must therefore be focused to ensure maximum impact.

#### CDC's new Investment Policy

Under the new Investment Policy all CDC's new commitments will be in sub-Saharan Africa and South Asia.

This will be a much greater degree of focus in these regions than the current Investment Policy and it specifically excludes China, South East Asia and Latin America.

#### Focusing on the poor within sub-Saharan Africa and South Asia

These regions contain low income countries (LICs) and lower middle income countries (LMICs) (e.g. Nigeria). **All of these countries have large numbers of poor people.**

In LMICs CDC **will focus on areas of need and where capital is scarce.** CDC will avoid well-served sectors, such as the offshore oil and gas industry in Nigeria.

Investment in upper middle income countries (UMICs) will take place exceptionally and to facilitate investments for the **benefit of LICs and the poorer regions of LMICs**

#### Country approach papers

To achieve maximum possible development impact and additionality, short country approach papers will be drawn up to help focus CDC's efforts in areas of need in larger LMICs or regions, such as Nigeria, Pakistan and India.

The country approach papers will seek to target CDC investment on the locations and sectors with the greatest need. They will also describe possible partners and financial instruments.

### 3. Where: CDC's universe (continued)

**CDC's capital will target countries where 70% of the world's poor live on less than US\$1.25 a day\***

LICs<sup>\*\*</sup>: **24%** of the world's poor\*

*Afghanistan; Bangladesh; Benin; Burkina Faso; Burundi; Central African Republic; Chad; Comoros; Congo DRC; Eritrea; Ethiopia; Gambia; Guinea; Guinea-Bissau; Kenya; Liberia; Madagascar; Malawi; Mali; Mozambique; Nepal; Niger; Rwanda; Sierra Leone; Somalia; Tanzania; Togo; Uganda; Zambia; Zimbabwe*

LMICs<sup>\*\*\*</sup>: **46%** of the world's poor\*

*Angola; Bhutan; Cameroon; Cape Verde; Congo (Brazzaville); Côte d'Ivoire; Djibouti; Ghana, India; Lesotho; Nigeria; Pakistan; Sao Tome and Principe; Senegal; Sudan; Swaziland*

**CDC will avoid sectors that attract commercial capital e.g. offshore oil and gas, late-stage mining**

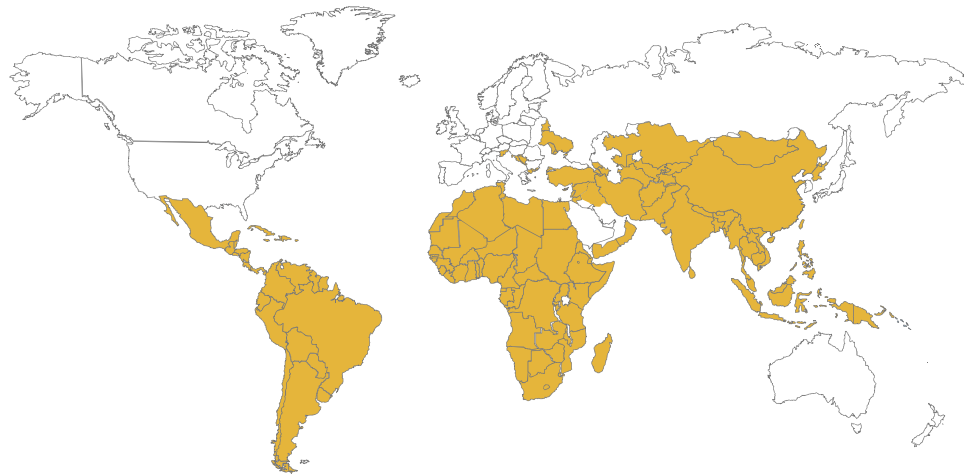
\* Based on latest World Bank estimated data

\*\* Low income country, defined by the World Bank as countries with a gross national annual income per capita of \$995 or less

\*\*\* Lower middle income country, defined by the World Bank as countries with a national annual income per capita of \$995 – \$3,495

### 3. Where: more distinctive due to intense focus on the poor of the world

#### CDC's old universe



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#### CDC's new universe\*



\*Exceptionally, CDC may also invest in UMIC countries in sub-Saharan Africa in order to facilitate more investment into LICs and the poorer regions of LMICs.

## 4. How: CDC's partners, instruments and ways of working

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### New and current partners

#### DFID

Strengthen relationship, regular on the ground exchange of information.

#### Fund managers

Currently 71 with offices across sub-Saharan Africa and South Asia; work with these trusted partners to move into frontier markets.

#### Banks

Formidable on the ground presence in our geographies.

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#### Other DFIs

Leverage networks to collaborate on projects and share best practice and investment intelligence.

#### Foundations, sovereign wealth funds, pension funds, ...

Encourage new sources of responsible capital to move into exciting new areas of opportunity.

#### Direct investments

Put capital directly into businesses in poorer developing countries to maximise development returns.

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**CDC will reach out to find new partners and financing tools through a CDC department focusing on innovative finance.**

## 4. How: CDC's partners, instruments and ways of working

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### Instruments

CDC will use new investment instruments, enabling capital to be put to work in more difficult markets.

#### Debt

Targets frontier markets, where investment infrastructure is under-developed. Especially beneficial to small and medium sized enterprises (SMEs).

**Objective:** debt provision to represent up to 20% of total portfolio by 2015.

#### Example strategy

CDC will allocate debt capital in **three** ways:

- via **debt funds** capable of delivering investment strategies aligned with CDC's policies;
- via **risk sharing structures** – co-working with other DFIs, commercial banks and funds; and
- **directly** in the target geography, whereby direct routes will allow greater control of capital allocation and more accurate targeting of frontier geographies and 'developmental' sectors.

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#### Direct investment

Targets businesses with high potential development returns. Hands-on management of investments deepens and improves development expertise.

**Objective:** direct investment to represent up to 20% of total portfolio by 2015.

#### Example strategy

Direct investments will initially be made in conjunction with CDC partner organisations such as fund managers and other DFIs. In time CDC will acquire the expertise required to identify and manage direct investments alone.

#### Guarantees

Enables lenders to provide capital to businesses that they may otherwise not be lending to. CDC will use guarantee products to provide credit enhancement to nascent market sectors e.g. SME, commercial bond markets and trade finance.

## 4. How: CDC's partners, instruments and ways of working (continued)



### Other tools, other capital

CDC will explore the role that **technical assistance** can play in deploying capital in the most effective way.

CDC will also examine the possibility of **managing third party capital**, such as that of pension funds, to boost funds deployed.

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### CDC Investment Code\*

The Investment Code is a potent tool for driving improvements in environmental, social and governance standards in the developing world. It requires investee businesses to comply with all local laws including tax legislation. It will be regularly updated and refreshed to incorporate the latest international standards. This will ensure that CDC's capital is invested responsibly and sustainably.

There will be more independent evaluations of investments and a greater emphasis on monitoring and supporting fund managers and other partners. The rigorous approach will put particular emphasis on investments that are rated high-risk in relation to environmental, social or governance factors.

### Internal resources

CDC will continue to build, deepen and invest in leading-edge development expertise.

CDC's wider range of investment instruments under the new Business Plan means that the company will need to recruit more staff with additional investment skills and development expertise.

\* CDC's Investment Code is available online at [www.cdcgroup.com/cdc-publications.aspx](http://www.cdcgroup.com/cdc-publications.aspx)

## 4. How: value for money and transparency

### Pooling capital

CDC will have **value for money** as a core objective and will continue to strive to catalyse more private investment. The business should therefore be structured efficiently from operational, legal and fiscal points of view.

Pooling capital, as through funds, is often a good way of mobilising private investors – who take comfort in CDC being a co-investor.

Where it is within CDC's discretion as originating or sole investor, CDC will not make new investments in or through harmful tax regimes, or regimes which do not comply with the international tax transparency and exchange of information standards (as defined by the OECD and Global Forum on Transparency and Exchange of Information for Tax Purposes). Where CDC does not have such discretion, CDC will make a judgement on the merits of the proposed new investment against the nature of the tax regime – and be transparent about that judgement.

CDC will also be transparent in its dealings from a tax perspective. Information will be published on taxes paid within CDC's portfolio and, if specific information cannot be published, CDC will explain why.

### Transparency

As is appropriate for a government-owned business deploying taxpayers' money, **CDC will be as transparent as possible**. It will update its transparency and disclosure policy and will make more information publicly available to comply with this requirement.

While observing the constraints of the Data Protection Act and commercial confidentiality, CDC will publish more data on the businesses where its capital is at work, its fund managers and the funds investing its capital, the economic impact of its investments on a country-by-country and a sector-by-sector basis, remuneration and operating costs.

This approach means that CDC will lead the way among development finance institutions in openness and transparency.

## 5. Risk, return and financial matters

### Investments

Over the five years 2011 – 2015 CDC will aim to invest over **£2bn**, averaging **£400m** a year.

At least £1.2bn will be invested in sub-Saharan Africa by 2015

Up to £0.8bn will be invested in South Asia by 2015

Debt investments will be up to 20% of the portfolio by 2015

Direct investments will be up to 20% of the portfolio by 2015

CDC will always make investments which are, or have the potential to be, commercially viable and will manage its assets rigorously in order to **preserve capital** and **maximise development returns**.

### Risk profile

With greater focus on frontier markets, CDC's risk profile will increase across financial and ESG areas. Investments through private equity funds are currently expected to continue to make strong returns which will underpin the more innovative and ambitious, new parts of the portfolio.

Exposure to individual countries will be monitored against predetermined limits.

CDC's risks will be managed through robust due diligence and thorough monitoring carried out by excellent and properly incentivised staff.

### Remuneration

The main guiding principle for the new remuneration framework is that it should enable CDC to recruit and retain people with the right attitude and skills to deliver CDC's development mission.

Remuneration levels must be defensible within a publicly-owned entity whose ultimate purpose is poverty reduction and comparable with other bodies with similar missions.

CDC will follow applicable FSA guidance and EU legislation under which variable performance pay would be largely deferred and based on long-term performance.

## 6. Summary: CDC in 2015

Increased presence in LICs, expanded range of instruments, more distinctive

### Most bilateral and multilateral DFIs...

	UMIC	LMIC	LIC
<b>Equity</b>			
Intermediated investments			
Co-investments	■	■	
Direct investments	■	■	
<b>Debt</b>			
Intermediated investments	■	■	
Co-investments	■	■	
Direct investments	■	■	
<b>Guarantees</b>	■	■	

...are predominantly invested in UMICs and LMICs

### CDC today...

	UMIC	LMIC	LIC
<b>Equity</b>			
Intermediated investments			
Co-investments	■	■	■
Direct investments	■	■	■
<b>Debt</b>			
Intermediated investments			
Co-investments			
Direct investments			
<b>Guarantees</b>			

...has a considerable percentage of its portfolio in LICs and has niche expertise as a fund-of-funds.

### CDC 2015...

	UMIC	LMIC	LIC
<b>Equity</b>			
Intermediated investments			
Co-investments	■	■	■
Direct investments	■	■	■
<b>Debt</b>			
Intermediated investments			
Co-investments			■
Direct investments			■
<b>Guarantees</b>			

...will be even more distinct in its focus on the poorest countries, expanding its range of instruments to be even more effective in these settings

## 7. Conclusion



*“...CDC will become a distinctive, innovative and differentiated development finance institution – with clearly measurable development impact and additionality, and a new commitment targeted throughout sub-Saharan Africa and the poorer parts of Asia.”*

**Rt Hon Andrew Mitchell**  
**Secretary of State for International Development**  
**12 October 2010**