



## **INVESTMENT CODE**

CDC's mission is to generate wealth in emerging markets, particularly in poorer countries, by providing capital for investment in sustainable and responsibly managed private sector businesses.

CDC invests in the creation and growth of commercially viable private businesses in poor countries. Commercially sustainable businesses, supported by CDC, play a vital part in economic development: they employ and train people, pay taxes, invest in research and development, and build and operate infrastructure and services. This contributes to economic growth, which benefits poor people. CDC also mobilises private investment in these markets both directly and by demonstrating profitable investments.

Sustainable private sector development requires responsible business management of environmental, social and governance ("ESG") matters. This Investment Code defines CDC's principles, objectives, policies and management systems for sustainable and responsible investment with respect to ESG.<sup>1</sup> It also includes an Exclusion List, which specifies businesses and activities in which CDC will *not* invest.<sup>2</sup>

### **1. PRINCIPLES**

CDC, and the businesses in which its capital is invested, will:

- comply with all applicable laws;
- as appropriate, minimise adverse impacts and enhance positive effects on the environment, workers, and all stakeholders;
- commit to continuous improvements with respect to management of the environment, social matters and governance;
- work over time to apply relevant international best practice standards,<sup>3</sup> with appropriate targets and timetables for achieving them; and

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<sup>1</sup> CDC's Investment Code is compatible with the 2006 International Finance Corporation ("IFC") Policy and Performance Standards on Social and Environmental Sustainability ("IFC Performance Standards"). See [www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards](http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards). A Fund Manager that follows the IFC Performance Standards fulfils the requirements on the Environment and Social Matters set out in this Investment Code. The Investment Code is also compatible with the 2007 agreement for common environmental and social standards among the European Development Finance Institutions ("EDFI Rome Consensus").

<sup>2</sup> CDC's Exclusion List is compatible with those of the IFC and the EDFI Rome Consensus.

<sup>3</sup> As referenced in this Investment Code and as may develop over time.

- employ management systems which effectively address ESG risks and realise ESG opportunities as a fundamental part of a company's value.

## **2. OBJECTIVES AND POLICIES**

### **2.a. THE ENVIRONMENT**

#### **Objectives**

- To minimise adverse impacts and enhance positive effects on the environment, as relevant and appropriate, from the businesses in which CDC's capital is invested.
- To encourage the businesses in which CDC's capital is invested to make efficient use of natural resources and to protect the environment wherever possible.
- To support the reduction of greenhouse gas emissions which contribute to climate change from the businesses in which CDC's capital is invested.<sup>4</sup>

#### **Policy**

Businesses in which CDC's capital is invested will:

- operate in compliance with applicable local and national laws (as a minimum);
- assess the environmental impact of their operations as follows:
  - identify potential risks and appropriate mitigating measures through an environmental impact assessment where business operations could involve loss of biodiversity or habitat, emission of significant quantities of greenhouse gases, severe degradation of water or air quality, substantial solid waste or other significant negative environmental impacts;<sup>5</sup> and
  - consider the potential for positive environmental impacts from business activities; and
- take appropriate actions to mitigate environmental risks, ameliorate environmental damage, and enhance positive effects as follows:

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<sup>4</sup> In line with the 1994 United Nation Framework Convention on Climate Change and the associated 2005 Kyoto Protocol ("UN Framework Convention"), see [www.unfccc.int/2860.php](http://www.unfccc.int/2860.php) as may be amended from time to time.

<sup>5</sup> Activities with potential significant adverse environmental impacts that are diverse, irreversible or unprecedented; mindful of potential cumulative, secondary or synergistic impacts that may occur as a consequence.

- where an activity is assessed to present significant environmental risks, work over time to apply the relevant IFC policies and guidelines,<sup>6</sup> if these are more stringent than local legislation, with appropriate targets and timetable for improvements; and
- as appropriate, work over time towards international environmental best practice standards.<sup>7</sup>

## **2.b. SOCIAL MATTERS**

### **2.b.i. LABOUR AND WORKING CONDITIONS**

#### **Objectives**

- To require the businesses in which CDC's capital is invested to treat all their employees and contractors fairly and to respect their dignity, well-being and diversity.
- To encourage the businesses in which CDC's capital is invested to work over time towards full compliance with the International Labour Organization ("ILO") Fundamental Conventions<sup>8</sup> and with the United Nations ("UN") Universal Declaration of Human Rights.<sup>9</sup>

#### **Policy**

Businesses in which CDC's capital is invested will:

- comply with applicable local and national laws (as a minimum);
- not employ or make use of forced labour of any kind;

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<sup>6</sup> The IFC Performance Standards and the 2007 IFC Environmental, Health and Safety Guidelines ("IFC EHS Guidelines"), as may be amended from time to time and adopted by CDC. IFC EHS Guidelines include general guidelines and industry sector guidelines for forestry, agribusiness / food production (including fisheries), general manufacturing, oil and gas, infrastructure, chemicals (including pharmaceuticals), mining and power. See [www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards](http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards) and [www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate](http://www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate).

<sup>7</sup> Including the range of internationally certifiable environmental standards issued by the International Organization for Standardization ("ISO"), the ISO 14000 series, notably including standards for environmental management systems (ISO 14001) and greenhouse gas emissions (ISO 14064-65), as may be amended from time to time. See [www.iso.org](http://www.iso.org).

<sup>8</sup> The ILO Fundamental Conventions are the Conventions on Freedom of Association and Collective Bargaining; Forced Labour; Child Labour; and Non-Discrimination, as may be amended from time to time. See [www.ilo.org/ilolex/english/docs/declworld.htm](http://www.ilo.org/ilolex/english/docs/declworld.htm) for the texts of these Conventions and a list of the countries that have ratified each of them.

<sup>9</sup> See [www.un.org/Overview/rights.html](http://www.un.org/Overview/rights.html)

- not employ or make use of harmful child labour;<sup>10</sup>
- pay wages which meet or exceed industry or legal national minima;
- treat their employees fairly in terms of recruitment, progression, terms and conditions of work and representation, irrespective of gender, race, colour, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status;
- allow consultative work-place structures and associations which provide employees with an opportunity to present their views to management; and
- for remote operations involving the relocation of employees for extended periods of time, ensure that such employees have access to adequate housing and basic services.

## **2.b.ii. HEALTH AND SAFETY**

### **Objectives**

- To attain safe and healthy working conditions for employees and contractors of the businesses in which CDC's capital is invested.
- To safeguard the health and safety of all those affected by the businesses in which CDC's capital is invested.

### **Policy**

Businesses in which CDC's capital is invested will:

- comply with applicable local and national laws (as a minimum);
- assess the health and safety risks arising from work activities; and
- take appropriate actions to eliminate or reduce risks to health and safety as follows:
  - where an activity is assessed to present significant health and safety risks,<sup>11</sup> work over time to apply the relevant IFC policies and guidelines,<sup>12</sup> if these are more stringent than local legislation, with appropriate targets and timetable for improvements; and

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<sup>10</sup> As defined by the ILO C138 Minimum Age Convention from 1973 and the ILO C182 Worst Forms of Child Labour Convention from 1999. See [www.ilo.org/ilolex/english/docs/declworld.htm](http://www.ilo.org/ilolex/english/docs/declworld.htm)

<sup>11</sup> Activities that could have a severe health or safety impact for workers or affected communities.

<sup>12</sup> The IFC Performance Standards and the IFC EHS Guidelines, as may be amended from time to time and adopted by CDC. See [www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards](http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards) and [www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate](http://www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate).

- as appropriate, work over time towards international best practice standards for health and safety.<sup>13</sup>

### **2.b.iii. OTHER SOCIAL MATTERS**

#### **Objectives**

- To be objective, consistent and fair with all stakeholders of the businesses in which CDC's capital is invested.
- To recognise and, as appropriate, promote the social development impact from the businesses in which CDC's capital is invested.

#### **Policies**

Businesses in which CDC's capital is invested will:

- take account of their impact on employees, contractors, the local community and all others affected by their operations as follows;
  - identify potential adverse effects and appropriate mitigating measures through a social impact assessment in cases involving resettlement, critical cultural heritage, indigenous peoples, non-local labour or other issues where the negative impact could be significant;<sup>14</sup> and
  - consider social development contributions; and
- take appropriate actions to mitigate risks, ameliorate negative impacts, and enhance positive effects.<sup>15</sup>

### **2.c. GOVERNANCE: BUSINESS INTEGRITY AND GOOD CORPORATE GOVERNANCE**

#### **Objectives**

- To ensure that CDC, and the businesses in which CDC's capital is invested, exhibit honesty, integrity, fairness, diligence and respect in all business dealings.
- To enhance the good reputation of CDC.

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<sup>13</sup> Including OHSAS 18001, the international occupational health and safety management system specification, and industry specific international good practice standards related to the safety of product use, e.g. the international Good Manufacturing Practice (“GMP”) standards for food and pharmaceutical products promoted by the World Health Organization (“WHO”), see [www.who.org](http://www.who.org).

<sup>14</sup> Activities with potential significant adverse social impacts that are diverse, irreversible or unprecedented.

<sup>15</sup> As relevant, by applying IFC Performance Standards on Land Acquisition and Involuntary Resettlement; Indigenous Peoples; and Cultural Heritage; as may be amended from time to time and adopted by CDC. See [www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards](http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards).

- To promote international best practice in relation to corporate governance in the businesses in which CDC's capital is invested.<sup>16</sup>

## **Policy**

CDC, and the businesses in which CDC's capital is invested, will:

- comply with all applicable laws and promote international best practice,<sup>17</sup> including those laws and international best practice standards intended to prevent extortion, bribery and financial crime;
- uphold high standards of business integrity and honesty;
- deal with regulators in an open and co-operative manner;
- prohibit all employees from making or receiving gifts of substance in the course of business;
- prohibit the making of payments as improper inducement to confer preferential treatment;
- prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest;
- properly record, report and review financial and tax information;<sup>18</sup>
- promote transparency and accountability grounded in sound business ethics;
- use information received from its partners only in the best interests of the business relationship and not for personal financial gain by any employee;
- clearly define responsibilities, procedures and controls with appropriate checks and balances in company management structures; and
- use effective systems of internal control and risk management covering all significant issues, including environmental, social and ethical issues.

## **3. EXCLUSIONS**

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<sup>16</sup> Including the 2004 Organization for Economic Cooperation and Development ("OECD") Principles of Corporate Governance, as may be amended from time to time. See [www.oecd.org](http://www.oecd.org).

<sup>17</sup> Including the 2005 UN Anti-Corruption Convention, see [www.unodc.org/unodc/en/treaties/CAC/index.html](http://www.unodc.org/unodc/en/treaties/CAC/index.html); the 1997 OECD Anti-Bribery Convention, see [www.oecd.org](http://www.oecd.org); and, as relevant, the 2005 Extractive Industries Transparency Initiative ("EITI"), see [www.eitransparency.org](http://www.eitransparency.org); as may be amended from time to time.

<sup>18</sup> CDC promotes the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), see [www.iasb.org](http://www.iasb.org); and the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC"), see [www.privateequityvaluation.com](http://www.privateequityvaluation.com).

CDC's capital will not be invested in the following businesses or activities:

- production of or trade in any product or activity deemed illegal under applicable local or national laws or regulations, or banned by global conventions and agreements, such as certain:
  - hazardous chemicals, pesticides and wastes;<sup>19</sup>
  - ozone depleting substances;<sup>20</sup> and
  - endangered or protected wildlife or wildlife products;<sup>21</sup>
- production of or trade in arms, i.e., weapons, munitions or nuclear products, primarily designed or primarily designated for military purposes; or
- production of, use of or trade in unbonded asbestos fibres.<sup>22</sup>

CDC's capital will not be invested in businesses for which the following activities or products are, or are intended to be, a significant source of revenue:

- gambling;
- pornography; or
- tobacco or tobacco related products.<sup>23</sup>

#### **4. MANAGEMENT SYSTEMS FOR CDC's FUND MANAGERS<sup>24</sup>**

In order to implement CDC's Investment Code effectively, CDC requires its Fund Managers to enter into a formal agreement pursuant to which each Fund Manager

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<sup>19</sup> Including those specified in the 2004 Stockholm Convention on Persistent Organic Pollutants ("POPs"), see [www.pops.int](http://www.pops.int); the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, see [www.pic.int](http://www.pic.int); and the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see [www.basel.int](http://www.basel.int); as may be amended from time to time.

<sup>20</sup> As covered in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see [www.ozone.unep.org](http://www.ozone.unep.org), as may be amended from time to time.

<sup>21</sup> As covered in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna ("CITES"), see [www.cites.org](http://www.cites.org), as may be amended from time to time.

<sup>22</sup> This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

<sup>23</sup> Except, in the case of tobacco production only, with an appropriate timeframe for phase-out.

<sup>24</sup> For the purposes of the Investment Code, "Fund Manager" means (i) investment fund managers managing capital on behalf of CDC; (ii) financial institutions managing and/or investing capital on behalf of CDC; and (iii) other intermediated institutions managing and/or investing capital on behalf of CDC.

commits to an investment undertaking similar in substance to sections 1 – 4 of this Investment Code.<sup>25</sup>

Where Fund Managers have effective control or significant influence over portfolio companies,<sup>26</sup> CDC requires its Fund Managers to procure that such portfolio companies sign an undertaking confirming that they will operate in line with sections 1 – 3 of this Investment Code.

CDC also requires its Fund Managers to establish and maintain ESG management systems<sup>27</sup> which:

- assess the impact of all new investments on ESG matters as an integral part of the investment appraisal process;
- give new investments a risk rating on ESG issues to determine the appropriate level of management and monitoring;
- if an investment is made despite identified shortcomings in relation to ESG issues, or if any issues would arise during the investment period, assist the portfolio company concerned to develop an action plan to address such issues, with appropriate targets and timetable for improvements;
- encourage the managers of portfolio companies to work towards continuous improvements in these areas, with targets for improvements as appropriate;
- encourage the managers of portfolio companies to adopt and implement policies relating to ESG matters, particularly where businesses entail significant risks;
- monitor portfolio companies' performance on ESG matters and their progress towards relevant action plans and targets for improvements;

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<sup>25</sup> By side letter or equivalent agreement. An example of the standard CDC side letter agreement is available on CDC's website. See [www.cdcgroup.com](http://www.cdcgroup.com).

<sup>26</sup> A Fund Manager will be deemed to have significant influence over a portfolio company where its fund has (i) an ownership interest in the portfolio company in excess of 20%, which is presumed to be a level that allows for participation in the financial and operating policies of a portfolio company (if the percentage is lower but gives rise to the same participation, this will also meet the definition of significant influence); or (ii) board representation to a level that allows for participation in determining the financial and operating policies of the portfolio company; or (iii) rights to influence the financial and operating policy decisions of the portfolio company pursuant to a shareholders' or similar agreement.

<sup>27</sup> Further guidance on ESG management systems and assessments is provided in CDC's Toolkit for Fund Managers, see [www.cdcgroup.com](http://www.cdcgroup.com). Guidance on environmental and social management systems and assessments is provided in IFC Performance Standard 1, see [www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards](http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards). ISO 14001 is a certifiable international standard to help organizations minimize how their operations negatively affect the environment, see [www.iso.org](http://www.iso.org).

- monitor and record incidents involving portfolio companies that result in loss of life, material effect on the environment, or material breach of law, and promote appropriate corrective actions; and
- consider sections 1 – 3 of this Investment Code in all investment and divestment activities.

To demonstrate the implementation of this Investment Code, CDC requires its Fund Managers to:

- report annually on the implementation of their ESG management systems and on the performance of portfolio companies against sections 1 – 3 of this Investment Code in a format acceptable to CDC;<sup>28</sup>
- set targets for improvements where appropriate; and
- as soon as possible inform CDC about incidents involving portfolio companies that result in loss of life, material effect on the environment, or material breach of law, and any corrective actions taken.

## **5. MANAGEMENT SYSTEMS FOR CDC**

CDC will:

- assist its Fund Managers as appropriate to establish and maintain ESG management systems;
- monitor the implementation of the Investment Code through its Fund Managers' annual reports, with verifications as appropriate;
- evaluate its Fund Managers' implementation of the Investment Code periodically, using internal and external sources as appropriate, usually:
  - at the end of a fund's investment period or the half-way point of the duration of a fund, which would typically be 5 years after a standard fund has commenced; and
  - at the end of the duration of a fund, which would typically be 10 years after a standard fund has commenced;
- in instances where CDC invests directly and independently, establish and maintain ESG management systems substantially similar to those described above for its Fund Managers;

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<sup>28</sup> A suggested format for ESG reporting is available on CDC's website, while other reporting formats could be acceptable. See [www.cdccgroup.com](http://www.cdccgroup.com).

- consider the cumulative effects of CDC's investments with respect to the Investment Code and:
  - minimise adverse effects;
  - maximise development impact; and
  - promote synergies;
- identify major risks and opportunities associated with climate change in investments and potential investments made by its Fund Managers and proactively promote through those Fund Managers the application of international best practice standards in the reduction of emissions of greenhouse gases;<sup>29</sup>
- incorporate lessons learned into CDC's future investment strategy;
- keep up-to-date on new developments with respect to relevant international agreements and best practice standards; and
- review this Investment Code periodically to ensure its continuing suitability and effectiveness.

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<sup>29</sup> In line with the UN Framework Convention, as may be amended from time to time, and including IFC Performance Standards, IFC EHS Guidelines, and ISO 14064-65, as may be amended from time to time and adopted by CDC. See [www.unfccc.int/2860.php](http://www.unfccc.int/2860.php), [www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards](http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards), [www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate](http://www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate) and [www.iso.org](http://www.iso.org).