



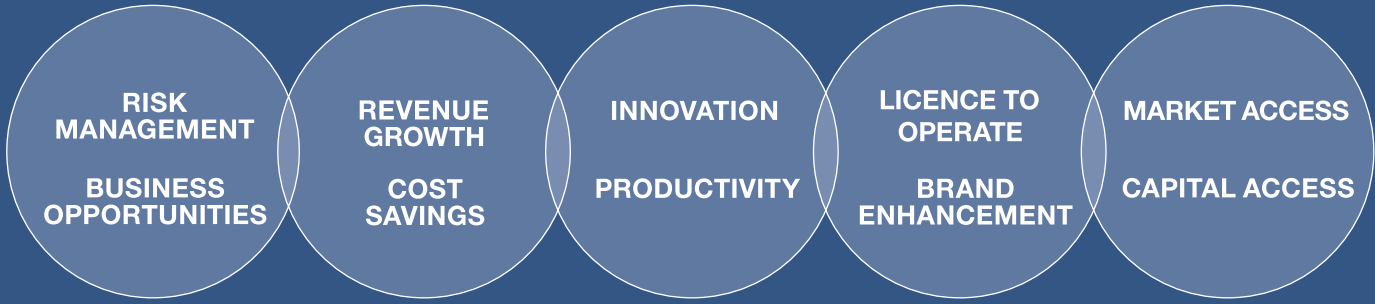
Toolkit on ESG for fund managers

Adding value through effective environmental, social and governance (ESG) management





Adding value through effective environmental, social and governance (ESG) management



Toolkit on ESG for fund managers

Quick reference

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Introduction

1. What is this Toolkit for? An introduction to ESG analysis

The term 'ESG' is commonly used to refer to environmental, social and governance matters relevant to a company's strategy and operations. There is growing recognition in the financial community that an effective analysis of ESG risks and opportunities is a fundamental part of the assessment of a company's value. Addressing ESG risks and realising opportunities for ESG improvements during a fund's investment period are important levers for fund managers to add value to their portfolio companies.

'Integrated ESG analysis' and 'ESG management systems' mean processes which take ESG factors into account alongside more traditional financial and business performance considerations in the assessment and management of a company.

This Toolkit is designed for fund managers, particularly for private equity fund managers investing in the emerging markets of developing countries. Its aim is to:

- explore the business case for assessing and managing ESG risks and opportunities arising from investments;
- provide tools for integrating ESG analysis into investment decisions and investment management;
- help determine when specialist expertise is required;
- consider how to report to boards, investors and the public; and
- provide guidance on how to apply international ESG standards, notably those used by development finance institutions (DFIs).

With increasing investor attention to ESG matters, policies, guidelines and standards are converging across the investment industry.

DFIs, including CDC, use the International Finance Corporation's Performance Standards on Social and Environmental Sustainability (IFC Performance Standards) and the associated World Bank / IFC Environmental, Health and Safety (EHS) Guidelines as the reference standards for investments in industries with significant risks in emerging markets. These standards are also used as reference for the signatories to the Equator Principles for project finance in emerging markets, including leading global financial institutions such as Barclays, CitiGroup, Credit Suisse, HSBC, JP Morgan Chase and Société Générale, the so-called 'Equator Banks'.

The United Nations Global Compact and the United Nations Principles for Responsible Investment (UNPRI) have gathered increasing numbers of corporate and investor signatories from around the world.

The US Private Equity Council, with members including many of the world's best known private equity firms such as Apax Partners, Blackstone Group, Carlyle Group, Kohlberg Kravis Roberts and Permira, issued a set of Guidelines for Responsible Investment in 2009, which builds on these globally accepted standards.

Despite the convergence in internationally recognised ESG standards, there is often a lack of clarity on how to implement such standards in fund managers' investment processes. This Toolkit provides practical guidance for fund managers to implement CDC's Investment Code on ESG, see p. 9-13, which is consistent with international best practice and standards on ESG. Appendices to this Toolkit provide guidance on relevant international ESG reference standards and how to apply these for fund managers and for companies. This Toolkit also includes appendices on ESG matters for specific industries, regions and different types of funds. It furthermore includes specific appendices on climate change and gender considerations, which are summaries of more extensive guidance materials on these topics to be found on CDC's website:

www.cdcgroup.com

'Our ambition is to build stronger and more valuable businesses, which means that a concern for their long-term sustainability has to be at the centre of what we do. As such, consideration of the social and environmental impact of our funds' activities is embedded into our day-to-day operations, the funds' investment process and the way we think about the governance of the funds' portfolio companies.'

Permira: a leading global private equity fund manager with total committed capital of €20 billion and investments in over 190 companies.

www.permira.com

Introduction



An introduction to CDC

CDC is the British development finance institution (DFI). Owned by the UK government's Department for International Development (DfID), CDC provides capital for fund managers to invest in promising businesses in emerging markets, with a particular emphasis on sub-Saharan Africa and South Asia. By supporting the private sector, CDC contributes to long-term poverty reduction in developing countries.

Responsible investment has always been core to CDC's mandate. No longer a direct investor since 2004, CDC currently promotes sound business practices through its fund managers. Across CDC's portfolio, fund managers take long-term stakes in portfolio companies and in this way can help companies improve their ESG standards over time. CDC insists on sound ESG management from a fundamental conviction that this is critical to ensure that development does not come at the expense of a damaged environment, poor conditions for local workers or negative impacts on communities. CDC also insists on improving standards because of growing evidence that ESG improvements help build higher value for businesses to grow into leading companies and provide superior returns to investors.

The fund managers that invest CDC's capital commit to implement the ESG policies, exclusion list and ESG management systems described in CDC's Investment Code through formal legal agreements.

This Toolkit is intended to provide the practical step-by-step guidance that fund managers may need to implement CDC's Investment Code on ESG.

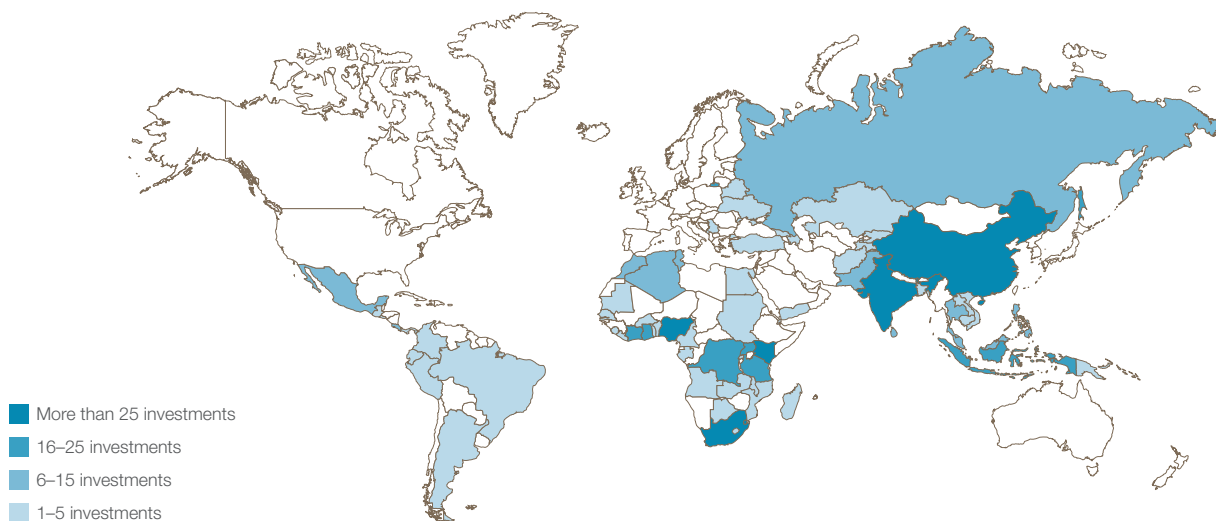
At the end of 2009, CDC had invested capital with 65 different fund managers who between them had offices in 37 developing countries. These fund managers had invested CDC's and other investors' capital in 794 portfolio companies in 71 countries.

'Companies seeking to grow and perform at the highest level need to pay close attention to maintaining quality standards across their business, including being aware of their impact on the environment and the increasing relevance of climate change and energy efficiency. For each investment that Actis makes, we aim to ensure that best practices are implemented in all aspects of the business including those relating to the interactions with society.'

Actis: a leading emerging markets private equity fund manager which was spun out of CDC in 2004 and which has subsequently raised US\$2.9 billion in capital.

www.actis.is

CDC's investments at year end 2009: 794 companies in 71 countries



Introduction

2. Why is this Toolkit useful? The business case for ESG

The business case for embedding ESG analysis and management in investments and corporate strategy is becoming stronger for many reasons, as described below.

2.1 Stakeholder interests

Governments in developed and many developing countries are strengthening environmental, social, anti-corruption and corporate governance regulations. Companies need to be able to respond. In many developed countries, governments are increasingly applying their substantial purchasing power to the procurement of sustainable goods and services, with impacts on supply chains also in developing countries.

Consumers know and care more and more about what they buy, how it is made, what it is made from, how far it has travelled and how it is packaged. As demonstrated by numerous surveys and studies, there is an increasing demand for products that are produced

sustainably, for the benefit of people and without causing harm to the environment. According to a study by PricewaterhouseCoopers, 58% of UK consumers buy fewer sustainable products than they would like to do.¹ According to another survey, approximately 50% of US consumers considered at least one sustainability factor in selecting consumer goods and choosing where to shop for those products.²

Mainstream investors were historically not drivers towards more long-term or integrated ESG management, partly because there was a perception that consideration of ESG issues was not compatible with fiduciary duties and maximising profits. This has changed, as indicated by the recent UNEP Finance Initiative's report *Fiduciary responsibility: legal and practical aspects of integrating environmental, social and governance issues into institutional investment*³ and the CFA Institute's report *ESG factors at listed companies*.⁴ A recent study by

ESG value addition comes from multiple sources

Percentage of respondents*

Ways in which ESG programmes improve a company's financial performance**



* Including CFOs, investment professionals and ESG professionals

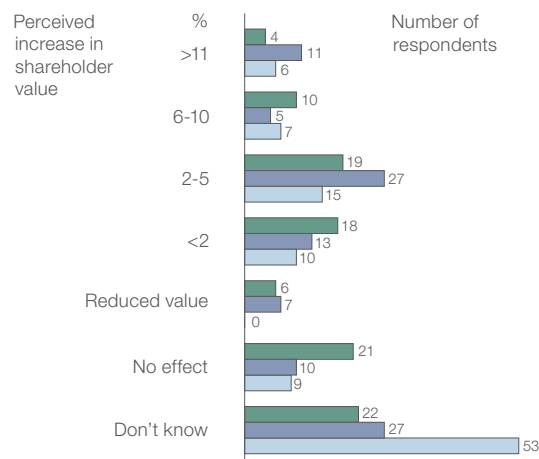
** Excluding any changes stemming from the economic crisis

Source: S. Bonini, N. Brun, and M. Rosenthal, 'Valuing corporate social responsibility,' The McKinsey Quarterly, February 2009.

ESG programmes are perceived to increase shareholder value

■ CFOs, n=84
■ Investment professionals, n=154
■ ESG professionals, n=87

Effects of ESG programmes on an organisation's shareholder value in typical times*



* Excluding any changes stemming from the economic crisis

Source: S. Bonini, N. Brun, and M. Rosenthal, 'Valuing corporate social responsibility,' The McKinsey Quarterly, February 2009.

¹ *Sustainability: Are consumers buying it?* PricewaterhouseCoopers, 2008.

² *Information Resources, Inc.*, 2009.

³ *Fiduciary responsibility: legal and practical aspects of integrating environmental, social and governance issues into institutional investment*, UNEP Finance Initiative, 2009.

⁴ *Environmental, social and governance factors at listed companies*, Centre for Financial Market Integrity CFA Institute, 2008.

Introduction

The business case for ESG

Boston College Centre for Corporate Citizenship and the consulting company McKinsey & Company argues that there are clear financial reasons for companies to invest in ESG improvements, indicating that ESG programmes can generate substantial direct financial returns. This study quotes investors and corporate managers as thinking that ESG improvement programmes have substantive impact on total quantifiable shareholder value.⁵ There are currently moves among powerful groups of investors to require their asset managers to incorporate more long-term ESG thinking into their company valuations (as in the Enhanced Analytics Initiative⁶) and to require companies to report to investors on key ESG issues (as in the Carbon Disclosure Project⁷). Around 200 asset owners have signed up to the UN Principles for Responsible Investment, along with 300 investment managers. These developments build the case for effective ESG analysis throughout the financial sector, including for private equity.

Leading companies are demonstrating that businesses benefit from embedding sound ESG management into their operations. The expectations of consumers and investors will continue to rise, leading to increased demands for disclosure and increased differentiation between companies and their products and services on the basis of ESG performance.

Company directors are increasingly recognising the need to take ESG matters seriously at board level. The importance of good corporate governance and the need for directors to ensure transparency and accountability were highlighted during the financial crisis. Some insurers are considering withholding directors' liability insurance from companies that do not have appropriate ESG management processes.

Mainstream analysts are beginning to understand, accept and incorporate ESG aspects into their capital allocation recommendations. This is particularly true in high-risk sectors such as oil and gas and in sectors

which would most immediately suffer the effects of unsustainable practices, such as consumer goods where brand and reputation are increasingly key for successful sales.

Climate change poses numerous opportunities for forward-looking companies as well as risks for those that fail to adapt. Carbon markets are already worth US\$126 billion⁸ and are expected to grow significantly in the years to come. There are new markets for products that help society adapt or which enable other entities to reduce their emissions. The carbon content of products is likely to increasingly become a differentiator in the marketplace, enabling companies in every sector to benefit from improving performance relative to their peers.⁹

Private equity fund managers have a long-term investment horizon and are ideally placed to implement improvements in ESG management over time in their portfolio companies, which add value to their investments. It is sometimes perceived that private equity firms' success comes simply from structuring deals so that their investors make quick financial returns with substantial 'carry' payments for fund managers, without regard to the health of the underlying company and its employees, not to mention wider stakeholders. In the long term, to build stronger portfolio company businesses but also to improve fund managers' own brands and to avoid excessive new regulations, it is in the private equity industry's interest to make and structure investments in a way which ensures that benefits accrue to society as well as to investors and fund partners.

⁵ *How virtue creates value for business and society: investigating the value of ESG activities*, Boston College Center for Corporate Citizenship and McKinsey & Company, 2009.

⁶ www.enhanced-analytics.com

⁷ www.cdproject.net

⁸ *State and trends of the carbon market 2009*, Karan Capoor & Philippe Ambrosi, World Bank, 2009.

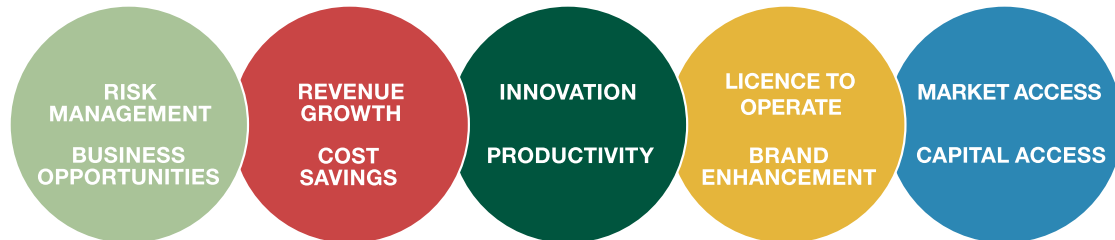
⁹ *Climate change guidance for fund managers*, Forum for the Future for CDC Group plc. 2010.



Introduction

The business case for ESG

2.2 ESG value drivers



Risk management

Some private equity investors regularly undertake environmental, social and business integrity assessments as part of their due diligence in order to establish whether there are liabilities which have not been accounted for elsewhere. The assessment should be extended to cover a wide range of questions about cost efficiencies and advantages arising from improved environmental, labour, health and safety, community, ethical practices and corporate governance. Engaging with local communities can improve a company's ability to adapt better to changing political and social situations, with lower risks of disrupted operations and lower security costs.

Business opportunities: market access and revenue growth

Sales into a new market may require a company to adapt its products or services to satisfy different regulations and standards. Establishment of a subsidiary in, or sourcing from, a new market requires a company to understand specific local ESG risks. In some cases, this goes beyond compliance with the local legislation where local standards fall short of those expected from the company's brand or by its investors. Producers in emerging markets can access markets in Europe and the United States through certifications on environmental, product safety and 'fair trade' grounds. Opportunities may also arise from looking at markets which have not been part of the company's traditional strategy, for example, new ways to market products or services to customers at the 'bottom of the pyramid', i.e. the poorer segments of the population.¹⁰ A recent example is the consulting company Hystra's report *Access to Energy for the BOP*¹¹ based on work for three leading French energy companies. Local ESG efforts and community dialogue can facilitate entry into new markets with lower risks of disrupted operations and lower security costs.

Cost savings

There is often potential for substantial cost savings through energy efficiencies, reduced use of water and other resources and improved waste management. These are partly environmental issues, but also clear business concerns. The importance of energy efficiency will continue to grow, particularly in industries with energy-intensive manufacturing systems such as cement. Transport efficiencies will also be critical, not only for companies in the transportation sector per se but also for those with a wide distribution network. With water supplies diminishing in many countries, a company's use of water in its manufacturing process could become critical for its competitive advantage. Cost savings can also come from reduced employee turnover and improved productivity by using ESG improvements to build staff motivation.

Innovation

Product design needs to adapt as consumer preferences change and new technologies emerge. Pressures are growing on companies to produce goods which recognise the limitations of the natural environment and which are therefore based less on a 'consumption' mentality of create-use-dispose and more on a 'life-cycle' mentality of create-use-reshape-and-reuse. Winning companies constantly seek to develop cutting edge technology and innovative products and services for unmet environmental or social needs that could translate into business uses, patents, proprietary knowledge, etc.

Productivity through improved management

Improvements in portfolio company management is the obvious focal point for private equity investors. The CEOs who are more likely to deliver growth will be those who have analysed future trends in the market-place for their products and services, considered which resource constraints will

¹⁰ *The fortune at the bottom of the pyramid*, Prahalad 2002.

¹¹ *Access to energy for the bottom of the programme*, Hystra 2009 www.hystra.com

Introduction

The business case for ESG

impact on their access to raw materials or other inputs and anticipated the direction of future consumer preferences and regulations. In all of these areas, an integrated ESG analysis provides important insights. ESG analysis can develop leadership skills, enhance employee productivity and improve the company's long-term strategy.

Productivity through more efficient supply chains

Strong relationships with suppliers are key to successful corporate performance. Long-term relationships usually depend on mutual trust, which requires careful nurturing. Many companies have found that an enhanced focus on supply chain management, especially support for small and medium-sized (SME) suppliers to enable them to grow with the company, has been a key factor for efficient production. Engaging in community welfare and development can be an important way to secure consistent, long-term and sustainable access to high quality raw materials and products.

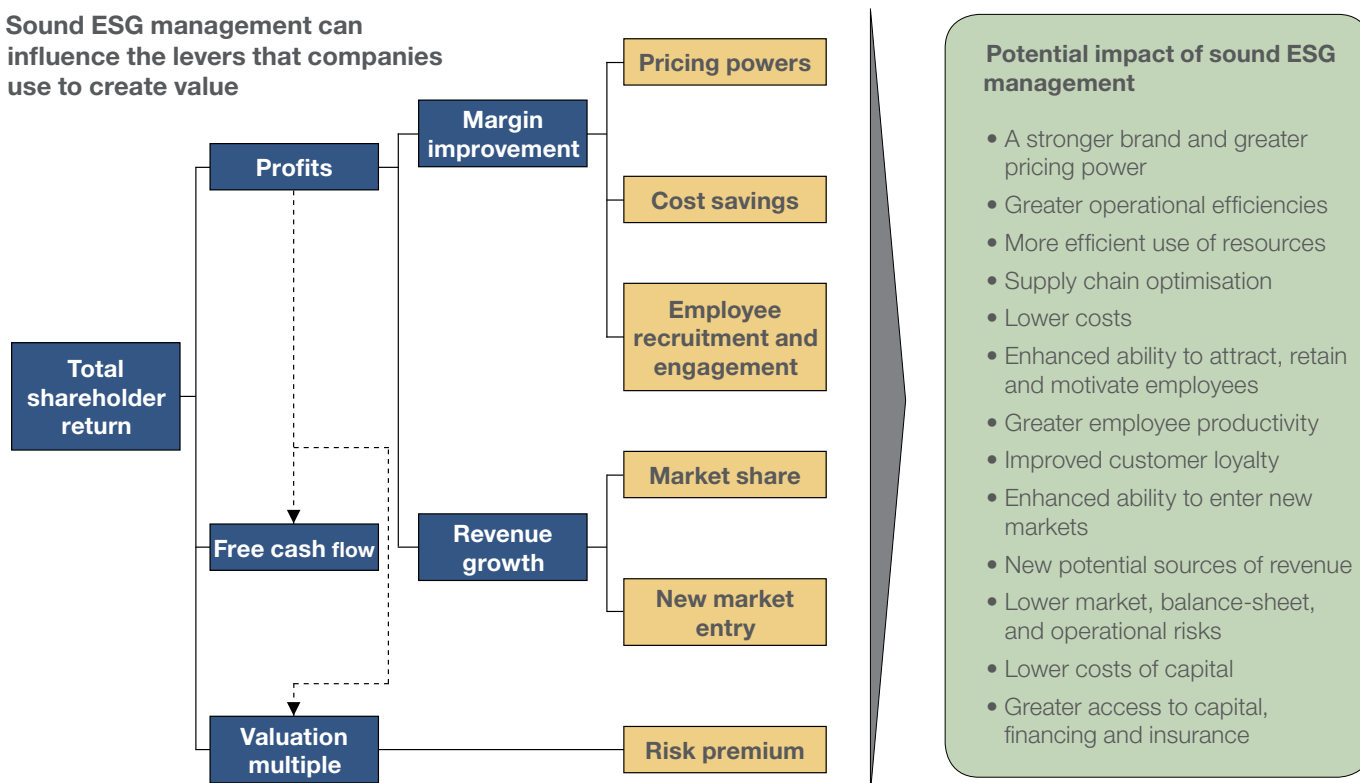
Brand enhancement

There are multiple examples of companies that successfully use ESG factors to engage with consumers and build brands, from Starbucks' 'fairtrade' coffee to the Bodyshop's responsible sourcing to GAP's and American Express' 'RED' product lines.¹² A reputation for sustainable business practices can build brands for which customers are willing to pay a price premium. Successful ESG programmes can be an important way to foster brand loyalty, improve company reputation and gain goodwill with customers and stakeholders. Attention to ESG issues is also important to avoid negative publicity and boycotts.

Capital access

Trade buyers and investors pay increasing attention to ESG matters. Sound ESG management can substantially improve a fund manager's potential for a successful exit. Increasingly, there are ESG requirements associated with initial public offerings (IPOs) in emerging markets, e.g. full compliance with environmental regulations in line with international standards for IPOs in China.

Sound ESG management can influence the levers that companies use to create value



Source: *The Sustainability Initiative Survey 2009*, Boston Consulting Group and MIT Sloan Management Review. Adapted by CDC and Rosencrantz & Co.

¹² 'RED' products provide a share of corporate profits from their sales to the Global Fund to Fight AIDS, Tuberculosis and Malaria www.theglobalfund.org

Introduction

3. How to embed ESG management into the investment process? **The Toolkit**

This Toolkit shows step-by-step how ESG analysis and management can enhance a fund manager's investment processes. It is designed to help fund managers focus their time and resources efficiently, to increase awareness of ESG opportunities and risks, which may need to be addressed and monitored, and to flag complex areas where specialist external support may be required. Each *Tool* covers a specific area and is intended to be practical and easy to use. There is, however, no substitute for a detailed assessment where ESG risks are high and the quality of a company's ESG management systems is inadequate. The Toolkit should help target detailed work to where it is the most needed.

Tools 1 - 4 apply to all investment activities. The other *Tools* in this Toolkit apply to specific stages of the investment process as indicated below.



Introduction

Appendices

Appendices to this Toolkit provide important supplementary information.

- Appendix 1** ESG due diligence questions
- Appendix 2** Sector-specific ESG risks and opportunities for improvements
- Appendix 3** ESG risks in different regions and selected countries
- Appendix 4** ESG management for different types of funds: SME, microfinance and debt funds
- Appendix 5** International ESG reference standards and conventions
- Appendix 6** CDC's monitoring and evaluation system
- Appendix 7** CDC's reporting templates and example of an ESG report
- Appendix 8** Investments from different development finance institutions (DFIs): comparing standards and procedures
- Appendix 9** Climate change considerations: risks and opportunities
- Appendix 10** Gender considerations: good practices for investors and businesses

Appendix 5 is particularly important, as it provides brief summaries of key international standards and conventions on ESG. Many of these standards and conventions are referred to in CDC's Investment Code on ESG, see p. 9-13. These standards can be used to benchmark the performance of companies and to implement improvements as relevant over the investment period. Some of these standards are relevant for all fund managers and companies, while others are relevant only for fund managers that invest in high risk assets or in certain sectors. For example, the IFC Performance Standards and the associated Environmental, Health and Safety (EHS) general and industry specific Guidelines are relevant for fund managers that invest in sectors with significant risks, whereas the Extractive Industries Transparency Initiative is only relevant for fund managers that invest in mining and other extractive industries. The different *Tools* included in this Toolkit refer to how to use these international standards at different stages of the investment process, as relevant.



CDC's standards and requirements

1. Investment Code on ESG

All fund managers that invest CDC's capital are required to commit to the ESG principles, objectives, policies, exclusion list and management systems described in CDC's Investment Code on ESG through a binding legal agreement. Where a fund manager has effective control or significant influence over a portfolio company in which it invests, that portfolio company must also commit to the Investment Code¹ by way of an investment undertaking. Fund managers should not invest CDC's capital in companies that do not operate in-line with the Investment Code if they are not able to influence improvements in company practices over time.

Fund managers are expected to implement CDC's Investment Code even where local laws and customs may fall short of CDC's requirements. While fund managers may invest in portfolio companies with weak ESG practices, they must ensure that improvements are implemented during the investment period.

The international reference standards referred to in CDC's Investment Code are explained in *Appendix 5* to this Toolkit.²

1.1 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,³ with appropriate targets and timetables for achieving them; and

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

1.2 Objectives and policies

1.2.1 The Environment

Objectives

- to reduce 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; and
- to support the reduction of greenhouse gas emissions which contribute to climate change from the businesses in which CDC's capital is invested.⁴



Policy

Businesses in which CDC's capital is invested will:

Mandatory

- operate in compliance with applicable local and national laws (as a minimum);

As relevant

- 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;⁵ and

¹ A fund manager is 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. See *Tool 10* for the text of such an investment undertaking.

² CDC's Investment Code is compatible with the International Finance Corporation's (IFC) Policy and Performance Standards on Social and Environmental Sustainability (IFC Performance Standards). 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 (EDFIs).

³ As referred to in this Investment Code and as may develop over time.

⁴ In line with the 1994 United Nations Framework Convention on Climate Change (UN Framework Convention), the associated 2005 Kyoto Protocol and the associated 2009 Copenhagen Accord. These may be amended from time to time. See www.unfccc.int

⁵ 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.

CDC's standards and requirements

1. Investment Code on ESG

- 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:
 - where an activity is assessed to present significant environmental risks, work over time to apply the relevant IFC policies and guidelines,⁶ even 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.⁷

1.2.2 Social matters

1.2.2.a 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; and
- to encourage the businesses in which CDC's capital is invested to work over time towards full compliance with the International Labour Organisation (ILO) Fundamental Conventions⁸ and with the United Nations (UN) Universal Declaration of Human Rights.⁹

Policy

Businesses in which CDC's capital is invested will:

Mandatory

- comply with applicable local and national laws (as a minimum);
- not employ or make use of forced labour of any kind;
- not employ or make use of harmful child labour;¹⁰
- 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

As relevant

- 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.

⁶ The IFC Performance Standards and the 2007 IFC Environmental, Health and Safety Guidelines (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.

⁷ Including the range of internationally certifiable environmental standards issued by the International Organisation for Standardisation (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.

⁸ 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 for the texts of these Conventions and a list of the countries that have ratified each of them.

⁹ www.un.org

¹⁰ As defined by ILO Convention 138 on the minimum age for work from 1973 and ILO Convention 182 on the worst forms of child labour from 1999.

CDC's standards and requirements

1. Investment Code on ESG

1.2.2.b 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; and
- 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:

Mandatory

- comply with applicable local and national laws (as a minimum);

As relevant

- 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,¹¹ work over time to apply the relevant IFC policies and guidelines,¹² even if these are more stringent than local legislation, with appropriate targets and timetable for improvements; and
 - as appropriate, work over time towards international best practice standards for health and safety.¹³

1.2.2.c Other social matters



Objectives

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

Policy

Businesses in which CDC's capital is invested will:

As relevant

- 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;¹⁴ and
 - consider social development contributions; and
- take appropriate actions to mitigate risks, ameliorate negative impacts and enhance positive effects.¹⁵

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

¹² The IFC Performance Standards and the IFC EHS Guidelines, as may be amended from time to time and adopted by CDC.

¹³ 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).

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

¹⁵ 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.

CDC's standards and requirements

1. Investment Code on ESG

1.2.3 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; and
- to promote international best practice in relation to corporate governance in the businesses in which CDC's capital is invested.¹⁶

Policy

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

Mandatory

- comply with all applicable laws and promote international best practice,¹⁷ 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;¹⁸
- 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.

1.3 Exclusions

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;¹⁹
 - ozone depleting substances;²⁰ and
 - endangered or protected wildlife or wildlife products;²¹
- 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.²²

¹⁶ Including the 2004 Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance, as may be amended from time to time. See www.oecd.org

¹⁷ Including the 2005 UN Convention against Corruption; the 1997 OECD Anti-Bribery Convention; the 2005 Extractive Industries Transparency Initiative (EITI), as relevant; and the UK Bribery Act as may be amended from time to time.

¹⁸ CDC promotes the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB); and the International Private Equity and Venture Capital Valuation Guidelines (IPEVC).

¹⁹ Including those specified in the 2004 Stockholm Convention on persistent organic pollutants (POPs); the 2004 Rotterdam Convention on the prior informed consent procedure for certain hazardous chemicals and pesticides in international trade; and the 1992 Basel Convention on the control of transboundary movements of hazardous wastes and their disposal.

²⁰ As covered in the 1999 Montreal Protocol on substances that deplete the ozone layer.

²¹ As covered in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna (CITES).

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

CDC's standards and requirements

1. Investment Code on ESG

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.²³

1.4 Management systems for CDC's fund managers

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 commits to an investment undertaking similar in substance to CDC's Investment Code.²⁴

Where fund managers have effective control or significant influence over portfolio companies,²⁵ CDC requires its fund managers to procure that such portfolio companies sign an undertaking confirming that they will operate in line with CDC's Investment Code (see *Tool 10* and *Appendix 5*).

CDC also requires its fund managers to establish and maintain ESG management systems which:

- assess all new investments from an ESG perspective as an integral part of the investment appraisal process (see *Tools 5-8*);
- give new investments a risk rating on ESG issues to determine the appropriate level of management and monitoring (see *Tool 5*);

- if an investment is made despite identified shortcomings in relation to ESG issues, or if any issues arise during the investment period, assist the portfolio company concerned to develop an action plan to address such issues, with appropriate targets and a timetable for improvements (see *Tool 9*);
- encourage the managers of portfolio companies to work towards continuous improvements in these areas, with targets for improvements as appropriate (see *Tool 10* and *Appendix 5*);
- encourage the managers of portfolio companies to adopt and implement policies relating to ESG matters, particularly where businesses entail significant risks (see *Tool 10* and *Appendix 5*);
- monitor portfolio companies' performance on ESG matters and their progress towards relevant action plans and targets for improvements (see *Tool 11*);
- report periodically to the fund's governing body and annually to investors on the performance of portfolio companies from an ESG perspective (see *Tool 12*);
- monitor and record incidents involving portfolio companies that result in loss of life, material effects on the environment, or material breach of law, and promote appropriate corrective actions and report such incidents to the fund's governing body and investors (see *Tools 11* and *12*);
- consider ESG matters at the time of divestment /exit (see *Tool 14*).

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

²⁴ By side letter or equivalent agreement.

²⁵ A fund manager is 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.

CDC's standards and requirements

2. Business integrity compliance programme and policies



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CDC's standards and requirements

CDC requires each of its fund managers to make the following representation against corruption, anti-money laundering and terrorism financing on the closing of a fund and each time they draw down capital from CDC for an investment:

- neither we, nor any person on our behalf, has been engaged in (i) corrupt practices, fraudulent practices, coercive practices or collusive practices in connection with the fund or any investments made by the fund; (ii) money laundering or acted in breach of any applicable law relating to money laundering; or (iii) financing of terrorism; and
- we have complied with all applicable anti-money laundering (AML) and 'know your customer' (KYC) legislation with respect to each (i) investor in the fund; and (ii) portfolio company investment made by the fund.

CDC expects its fund managers and their portfolio companies to adopt a code of ethics. In addition, CDC expects its fund managers and their funds to commit contractually to the adoption and implementation of business integrity compliance policies which include AML and KYC guidelines.

CDC's fund managers must consider business integrity issues carefully when they undertake due diligence on prospective portfolio companies. Fund managers are also expected to review the adequacy of the due diligence and compliance policies of potential portfolio companies, including their AML, anti-corruption and KYC policies.

2.1. Code of ethics

In many of the countries where CDC's fund managers invest, corruption and questionable business practices are common. Each fund manager and their portfolio companies should adopt codes of ethics, which include the key elements of business integrity in accordance with CDC's Investment Code, section 1.2.3, p.12.

2.2. Recommended business integrity compliance programme and policies

In addition to adopting an appropriate code of ethics, CDC's fund managers should adopt and implement:

- business integrity compliance programmes and procedures which include compliance with the code of ethics;

- an AML policy;
- a policy against financing of terrorism;
- an anti-corruption compliance programme; and
- a KYC compliance programme to be utilised in connection with due diligence performed on potential investors in a fund and including the identification of all beneficial owners involved in a transaction.

These policies should be updated on a regular basis to ensure that they comply with relevant laws and reflect international best practice. Employees should receive regular training.

In accordance with their AML / KYC policies, fund managers are expected to undertake character risk due diligence (CRDD) to ascertain relevant information regarding the character, reputation and background of entities and individuals with whom they plan to transact. CRDD information should be considered during the screening of potential portfolio company investments and prior to accepting subscriptions from potential fund investors.

Fund managers should obtain the identifying information needed (e.g. birth date, place of birth, current address, passport numbers, social security numbers, company registration numbers and tax identification numbers) to perform effective background searches.

Fund managers should perform background searches on both portfolio companies and investors, as described below.

Portfolio companies

- the portfolio company and any subsidiaries;
- owners of the portfolio company unless they are entities publicly traded on a major stock exchange or are otherwise well known institutional investors (e.g. pension funds, multilateral or bilateral financial institutions); and
- individuals with a significant managerial relationship to the portfolio company.

Investors

- all individual investors in the fund; and
- all entities investing in the fund and their beneficial owners, unless they are publicly traded on a major stock exchange or are otherwise well-known institutional investors.

CDC's standards and requirements

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2. Business integrity compliance programme and policies

Background searches, whether performed in-house or out-sourced (usually to fund managers' external legal counsel), should include a comprehensive search of publicly available data using products from commercial database search companies (e.g. Complanet, Lexis-Nexis, West Law, Regulatory Data Corporation, World-Check, World Compliance, ISI Emerging Markets, Dow Jones Factiva, Owens Online). These companies offer products which include coverage of international news and media, government lists and records, legal and regulatory authority actions and records on politically exposed persons (PEPs).

Where appropriate, the fund manager should visit a potential investee company, its customers, suppliers and shareholders and applicable government agencies to conduct local due diligence. In addition, due diligence advisers with a local knowledge base should be considered to supplement the fund manager's own in-country due diligence.

Background information searches should identify relevant information regarding the reputation and character of entities and individuals with whom the fund manager is contemplating doing business. Relevant information may include information on criminal activities (e.g. money laundering, terrorism financing and corruption) or non-criminal matters (e.g. bankruptcy, civil litigation, regulatory investigations, PEPs, employment and credit history).

Special requirements regarding PEPs

CDC expects enhanced due diligence to be carried out to verify the source of wealth and funds where the investor in a fund or a business or its beneficial owner is a PEP.

A PEP is broadly defined as any individual (or a family member or close associate of such individual) who is or has been entrusted with a prominent public function by a state or an international body, including:

- heads of state, heads of government, ministers and deputy or assistant ministers;
- members of parliament;
- members of supreme courts, of constitutional courts, or of other high-level judicial bodies;
- members of courts of auditors or of the boards of central banks;
- ambassadors, chargé d'affaires and high-ranking officers in the armed forces; and
- members of the administrative, management or supervisory bodies of state-owned enterprises.

Enhanced due diligence

If concerns arise as a result of an initial background information search, fund managers should consider whether additional due diligence should be performed on a specific entity or individual. Additional due diligence may include the use of third parties such as a local legal counsel or an independent due diligence / business intelligence contractor to perform a more in-depth background search or an independent integrity check using a variety of methods including reference checks, discreet personal inquiries, interviews and research using local databases that are not accessible on the internet. A number of international firms provide these services (e.g. Kroll, Hill & Associates, Hakluyt, Control Risks, Risk Analysis, TD International, Advance Point Global, GPW and Exclusive Analysis). Fund managers should also consider using other available in-country resources for business intelligence and due diligence, such as local databases, local business contacts and networks and relevant embassies and chambers of commerce.

Enhanced due diligence may also be necessary where a potential investee company operates in a particularly high-risk country and / or industry. See *Tool 5* for guidance on rating of ESG risks, including business integrity risks.

Case 1: Business integrity: A CDC portfolio example from Kenya

An essential part of good governance for fund managers is to focus attention on business integrity matters among portfolio companies. During a visit by CDC's staff to a Kenyan printing company, its managing director told CDC that the investment by CDC's fund manager enabled him to enforce zero tolerance on corrupt payments throughout his company; 'I tell the buyers who expect a kick-back that our international investor just will not accept such practices.'

CDC's standards and requirements

2. Business integrity compliance programme and policies

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CDC's standards and requirements

Fund managers should document CRDD performed and any decisions made related thereto. Relevant CRDD information should be filed and made readily accessible during the investment decision process.

Background information searches should be updated prior to the fund's closing where significant time has elapsed since the initial searches were performed. Fund managers should pay particular attention to parties that become involved in a transaction at the later stages of the investment process to ensure that all appropriate information is collected and the appropriate due diligence performed.

Where enhanced due diligence is required, on-going monitoring following an investment should also be emphasised.

2.3. Business integrity due diligence and monitoring of portfolio companies²⁶

In addition to a code of ethics a business integrity compliance programme, CDC expects its fund managers to integrate business integrity elements into their due diligence programme. In establishing due diligence procedures, the principles described below should be adopted.

The fund manager should not proceed with an investment without knowing who the beneficial owners and prospective co-owners of a portfolio company would be.

KYC is a fundamental principle which must be applied in all operations of a fund. Before examining any transaction, the fund manager should be satisfied that he / she has gathered information sufficient to gain a view as to the identity of the ultimate beneficial owners, the source of wealth and the ownership structure. To protect the fund, it may be necessary to identify the beneficial owners of other counterparties in the transaction, including, but not limited to, equity sponsors, co-investors, lenders, shareholders, suppliers or other service providers. These principles also apply when divesting any interest in a portfolio company.

Where the fund's, fund manager's or its investors' reputational risk is linked to individual owner(s) involved in a transaction, it may be necessary to understand the full extent of the individual's business dealings (in particular partners in and activities of the business group) to

determine if there are any potential areas of risk beyond those associated with the particular transaction under consideration.

The fund should not enter into transactions wherever it is suspected, or where there are substantiated allegations, that opaque corporate structures or corporate vehicles are being used. Reliance on legal documents, such as letters by private lawyers or copies of shareholder registers in jurisdictions that permit nominee shareholders, may not always protect the fund from potential damage (either material or reputational), particularly where there are credible doubts about ownership. The fund manager is responsible for disclosing to the relevant governing body of the fund and the fund's investment committee any doubts about ownership. All potential issues should be recorded and should be part of the investment assessment. Such records should be available to the fund's investors if so requested.

The fund manager should not engage in a relationship with anyone convicted of, or under investigation for, a serious criminal offence nor should they undertake transactions where there is credible evidence of existing links to organised crime and criminal activities.

Conviction of a serious crime should in almost every case be a reason to turn down a transaction. As a general principle, in the case of an on-going criminal investigation, or where an individual has been indicted, the fund manager should avoid entering into the relationship until such time that the investigation is either dropped or a decision is made whether to prosecute. This also applies to individuals who may be the subject of international arrest warrants or who have been charged with, or found to have violated, UN sanctions. The opening of a criminal proceeding should also result in postponing consideration of any possible engagement.

Aside from criminal convictions, conclusive evidence of criminal activities or associations is frequently not available. In such a case, an independent integrity report might be commissioned from a reputable risk advisory firm. See 2.2 above. These reports should assess the level of certainty or reliability of the allegations raised. The fund manager may consider evidence that the allegations are

²⁶ Adapted from EBRD Integrity Guidelines for Funds.

CDC's standards and requirements

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2. Business integrity compliance programme and policies

false, unfounded, or politically or commercially motivated in making its decision whether to proceed with a transaction.

In the context of an existing relationship, the fund manager should inform the relevant governing body of the fund immediately if a criminal investigation is opened, a criminal prosecution is initiated, or a criminal conviction is handed down.

Investigations or sanctions by regulatory bodies, such as securities and exchange commissions or financial oversight authorities, are warning signs which need to be carefully evaluated before proceeding. Disclosure of actions by regulatory bodies, such as regulatory fines or sanctions against existing clients, must be brought to the attention of the fund's governing body by the fund manager.

The fund manager should not engage with any person or any entity on an internationally recognised 'black list'.

Once beneficial ownership has been determined, the fund manager should assess the risk profile of the potential counterparty, its relevant shareholders and its management. Widely accepted and internationally recognised 'black lists' (e.g. UN Security Council, US Department of Treasury, FBI, financial market regulators such as the SEC or FSA, OFAC, central banks, EU Travel Ban, World Bank, Interpol, etc) should be consulted to verify whether the proposed persons, entities or their management or shareholders, appear on any list. If there is information that someone was on a black list but was later removed, the period of time on the list as well as the reason for deletion or removal from the list should be ascertained if possible. Where such lists are not accessible or available, the fund manager should seek guidance from CDC.

Integrity and reputational risks should be fully disclosed to the fund's relevant governing body and investment committee.

Awareness of matters that may give rise to integrity or reputational risks should be brought immediately to the attention of the fund's governing body which will then decide on further steps to be taken which may include obtaining external opinions. Any reputational or integrity risks with regard to a fund's existing investments or new investment proposals should be given objective consideration taking account of any mitigating factors.

Where concerns are identified, the fund manager should draw these to the attention of the fund's investment committee.

Tool 6 and *Appendix 1* contain a sample of business integrity questions to be asked during investment due diligence.

All transactions should be monitored for integrity risks throughout the life of the project.

Integrity and reputational risks may arise at any time during the duration of an investment. Monitoring implementation of governance-related obligations is particularly important to identify early warning signs and to develop appropriate responses. During investment monitoring, the fund manager should verify that implementation of any applicable obligation agreed with the portfolio company is proceeding according to schedule. In addition, fund managers should update the due diligence on company owners / managers during the course of the investment and should ensure that the appropriate due diligence is performed on any new owners / managers that emerge after the initial investment. The fund manager should carefully consider any exception, or new potentially adverse information, and, where appropriate, bring it to the attention of the fund's governing body where corrective actions should be considered.

2.4 Portfolio company policies

As part of their due diligence on potential portfolio companies, fund managers should carefully review the adequacy of their policies, including their anti-corruption, AML and KYC policies.

Where possible, fund managers should ensure that they can enforce such policies through appropriate mechanisms including through rights to sell (so-called 'put rights'), adequate board representation or financial control of a portfolio company in the event of non-compliance. Fund managers should be satisfied before investing that each portfolio company has in place (or will have in place shortly after an investment has been made) appropriate internal controls to ensure implementation of these policies and procedures. Fund managers should require appropriate certifications from portfolio companies that address terrorism, money laundering, corruption, fraud, bankruptcy, criminal investigations and judgments and other similar matters in the legal agreements relating to the investment.

CDC's standards and requirements

2. Business integrity compliance programme and policies

Appendix 5 contains overviews of relevant international standards and guidance materials against corruption, including those developed by Transparency International and the Extractive Industries Transparency Initiative.

2.5 CDC's monitoring and legal agreement requirements

In the legal agreements evidencing CDC's investment in a fund, CDC requires the fund (and its fund manager) to provide CDC with certain rights allowing it to review the fund's compliance with CDC's Investment Code, see p. 9-13, and the fund's AML / KYC policies.

Representatives of CDC must have the right to visit each portfolio company and to access their books of accounts and records to the extent reasonably necessary to monitor compliance with CDC's Investment Code and the fund's AML / KYC policies.

Should CDC notify the fund manager of a concern that there has been a violation of the provisions of either

CDC's Investment Code or the fund's AML / KYC policies, the fund manager is required to cooperate with CDC in good faith to mitigate the risks posed by any violation to CDC, the fund, the fund manager and other investors.

CDC also requires the fund and the fund manager to agree that: (i) the repeated and material failure of the fund to comply with CDC's Investment Code; or (ii) the repeated failure of the fund and / or the fund manager to enforce implementation of CDC's Investment Code; or (iii) the repeated and material failure of the fund and / or the fund manager to apply CDC's Investment Code properly will give CDC the right to cease making capital contributions to the fund for future investments without penalty.

Finally, the fund and fund manager are expected to agree that should CDC request information to confirm that the fund has complied with CDC's Investment Code, the fund will promptly provide such information.

Case 2: Development of a national industry leader through improvements in governance: El Rashidi El-Mizan (MEF), Egypt



El Rashidi El-Mizan (MEF) is Egypt's leading producer of Halawa and Tahina, two traditional staple food products made from sesame seeds. CDC's fund manager Actis acquired a 65% equity share in the business.

Actis has helped MEF to implement world class standards in corporate governance and ESG management. One aim behind these improvements was to transform MEF from a family business to a leading corporation. The ESG improvements were achieved by Actis and MEF's management developing and agreeing upon a comprehensive ESG action plan at the time of Actis' investment. A strong board with independent directors was introduced shortly thereafter and the company's financial reporting capabilities were strengthened. In addition, Actis helped MEF to improve its ESG management systems with the help of a dedicated ESG expert. MEF has implemented ISO and OHSAS management systems and established reporting mechanisms on ESG to its board and investors.

When MEF was sold to Citadel Capital, a Cairo based private equity firm, the sale generated an investment cost multiple of 4.4 and an IRR of 35%. The high sales price of 410 million Egyptian pounds was attributed to MEF's excellent market position and the overall strong quality of the business. By the time of exit, MEF was a market leader, exporting to 25 countries with double the production capacity compared to at the time of Actis' investment.

CDC's standards and requirements

3. Reporting and evaluations

3.1 Reports from fund managers to CDC

CDC requires its fund managers to report on financial and non-financial parameters as specified below. For more guidance on ESG reporting for fund managers, see *Tool 12*. For CDC's recommended reporting templates and an example of a completed annual ESG report, see *Appendix 7*. For a description of CDC's monitoring and evaluation framework and indicators, see *Appendix 6*.

Fund managers are required to report to CDC as specified under 3.1.1, 3.1.2 and 3.1.3, below. Reporting as per 3.1.4 is also highly welcomed by CDC.

3.1.1 Financial performance indicates whether investments are profitable; thus returning capital to the fund's investors and demonstrating to other investors that profitable investments can indeed be made in emerging markets where some investors are traditionally

reluctant to invest. For fund investments, financial performance should be measured by the net IRR of the fund and the IRR of each realised investment.

Fund managers are required to report to CDC:

- current valuations of their investments quarterly or at least annually;
- IRR for each realised exit; and
- the current net IRR of their fund, quarterly or at least annually.

3.1.2 Economic performance indicates the extent to which investments generate benefits for the local economy in terms of commercially successful and growing businesses that provide employment and generate tax revenues.

Fund managers are required to report annual data for each portfolio company to CDC as follows:

- employment;

Suggested template for annual non-financial reports

ESG and economic data: annual report for [name of fund]

Country ¹	Sector	Rating of ESG risks & opportunities for improvements ²			Quality of ESG management systems ³
		Environment	Social matters	Governance	
Reporting period for data	Employee numbers (full time equivalents)	Currency of data	Taxes paid ⁴	Turnover	EBITDA
ESG issues / opportunities for improvements at the time of investment:					
ESG improvements achieved:					
Status / further actions to be undertaken, with timeframe:					
Other information:					

¹ Country or countries of operation.

² High, medium or low. See *Tool 5*.

³ Good, moderate or poor. See *Tool 8*.

⁴ Taxes paid for last year as shown in the cash flow statement, not taxes payable in the profit and loss (P&L) statement.

CDC's standards and requirements

3. Reporting and evaluations

- taxes paid;
- turnover; and
- profitability (EBITDA).

3.1.3 ESG performance indicates whether fund managers and their portfolio companies adhere to responsible investment and business practices and whether portfolio companies over time improve upon their practices from an ESG perspective.

Fund managers are required to report annual data for their portfolio companies to CDC as follows:

- risk ratings on ESG (high / medium / low) (see *Tool 5*);
- assessment of the quality of each portfolio company's ESG management system (good / moderate / poor) (see *Tool 8*);
- any ESG issues;
- improvements undertaken and underway, including any certifications if relevant, and future targets; and
- as relevant:
 - development outlays, e.g. charitable contributions; and
 - environmental products or services.

3.1.4 Private sector development indicates whether investments have broader positive effects for the local economy and communities including increased availability of capital from third party investors; more efficient capital markets; improvements in standards and regulations; and increased availability of better quality goods, services and infrastructure for the benefit of local communities.

Fund managers are encouraged to provide information to CDC in the form of case studies on the private sector development contributions of their fund(s) and their portfolio companies.

3.2 Serious incidents

In accordance with CDC's Investment Code, CDC's fund managers are required to monitor and record serious incidents involving portfolio companies that result in loss of life, material effect on the environment or material breach of law, promote appropriate corrective actions and report such incidents to CDC, with plans for corrective actions. Such serious incidents involving a portfolio company can have negative reputational implications for the fund manager as well as for investors in a fund. CDC takes any notification of a serious incident very seriously.

CDC's portfolio director responsible for a fund investment where a serious incident has been reported follows up with the fund manager as corrective actions are undertaken to ensure that adequate measures are being implemented in a timely manner. CDC follows up with the fund manager until there are sufficient assurances that the situation has been dealt with in a satisfactory manner and that risks for reoccurrence are mitigated appropriately.

For CDC's recommended template for reporting serious incidents, see *Appendix 7*.

3.3 Evaluations

CDC and other development finance institutions (DFIs) periodically perform in-depth evaluations of their fund investments. This is also the practice of some private sector investors. CDC's evaluations follow CDC's monitoring and evaluation framework to assess the development effects of investments as described in *Appendix 6*, using the evaluation template enclosed in this appendix. CDC's framework for evaluations is consistent with, while not identical to, that used by the IFC. See *Appendix 8* for a comparison. Evaluations can either be performed by CDC's investment professionals, assisted by ESG specialists, or by external consultants.

Since 2008, all of CDC's fund investments are evaluated:

- 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.

Fund managers are expected to collaborate with CDC's monitoring and evaluation framework. Fund managers normally assist CDC or CDC's evaluation consultants with interviews, access to portfolio company records, site visits and in other ways as appropriate to provide an in-depth understanding of a fund and its investments. Site visits to portfolio companies would normally focus on high-risk investments.

Findings from evaluations are shared by CDC with the relevant fund manager, and recommended actions are discussed. Recommendations from mid-point evaluations are expected to be implemented by fund managers and their portfolio companies during the remainder of the investment duration for a fund. The recommendations and findings in evaluation reports contribute to CDC's due diligence and decision making for investments in successor funds.