CDC Group plc Development Report 2008

Growth for development

CDC

Contents

Our mission

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

Our target

is to make more than 75% of new investments in low income countries* and to invest more than 50% of our capital in sub-Saharan Africa.

* Those with an annual gross national income (GNI) per capita of less than US$905.

Statement from the Chief Executive

I am delighted to present CDC's first report on the development effects of our investments. This document is just as important as our annual report and accounts and marks a major milestone for CDC. It is the first of its kind for CDC, and sets out some of the broader development contributions of CDC's investments across a range of economic sectors in the poor countries of the world. Going forward, we will publish reports every year which will continue to evolve with further analysis of the contributions CDC's capital makes to development.

No country in the world has been able to sustain poverty reduction and increase income levels without economic growth. Flourishing businesses of all kinds and sizes are essential for that growth: they employ and train people, pay taxes that allow governments to finance public services and infrastructure, and invest in research and development. Thriving businesses provide the poor with increased access to new and higher quality goods and services at competitive prices as companies reach scale in local production and sales. All industry sectors and companies of all sizes contribute to poverty reducing growth.

CDC has supported promising businesses in poor countries for 60 years, helping them to grow and improve upon their practices in terms of how they manage environmental, social and governance (ESG) matters. We now invest through private equity, mezzanine and other funds. These 127 funds, managed by 59 fund managers, have in turn invested CDC's capital in 681 different businesses in developing countries. Wholly owned by the UK government, we are an important part of the Department for International Development's (DFID) strategy of helping to build a thriving private sector in the developing world to reduce poverty. Not least in the light of the current credit crisis, CDC's commitment to continue to provide capital to private sector businesses in developing countries is of critical importance to help promote economic growth. CDC is able to make this commitment because it has significant resources at its disposal due to the financial success of the last five years.

Responsible investment and business practices are critical to ensure that investments in poor countries generate these development effects without destroying the environment and while ensuring safe and fair working conditions for employees. CDC's new Investment Code, published in 2008, is a key instrument for us to ensure consistent adherence to minimum requirements for responsible business operations in line with international good practices. Private equity funds are long-term investment vehicles and are therefore very well suited to promote improvements in corporate ESG practices over the investment period for the benefit of the environment and local populations. According to our evaluation work last year, 86% of the portfolio companies covered by the evaluations made improvements on ESG practices during the fund managers' investment period.

Historically, CDC has invested in businesses in the emerging markets of Africa, Asia and Latin America. A fundamental part of CDC's remit is to invest where other investors are reluctant to do so because of the perceived high risks of emerging market investments. Some countries, most notably China, are becoming more attractive to private sector investors as well as richer. Therefore, we agreed a new investment policy with DFID last year to ensure that we focus CDC's investments in the countries where our capital is the most needed. From 2009, we will focus our commitments on the poorest countries, with a concentration on sub-Saharan Africa and South Asia.

CDC's model for development finance since the spin-outs of Actis and Aureos is exciting and innovative from two key perspectives. First, we leverage additional third party capital to be invested alongside CDC in developing countries. For example, Actis has successfully raised US$2.9bn over the last four years. Secondly, our investments with 59 fund managers also strengthen local investment capacity and promote more efficient capital markets where these are often weak. All except one of CDC's 52 private equity fund managers have local offices in 34 different developing countries. 42% of our fund managers are managing private equity funds for the first time. CDC's willingness to engage with and support new fund managers often acts as a stamp of approval for other investors to follow suit. 83% of the fund managers covered by our evaluation work in 2008 raised successor funds, with US$1.1bn in new capital.

I have seen first hand how CDC's capital and our fund managers benefit businesses and the livelihoods of people in poor countries. Across our portfolio, CDC's fund managers are helping companies build value by improving environmental management, labour and working conditions, health and safety standards, and corporate governance. CDC and the fund managers that invest our capital have helped companies across Africa introduce HIV/AIDS programmes for their employees, mining companies improve environmental safeguards and health and safety standards, service providers enforce minimum wage payments, and food retailers and producers meet international food safety standards. Of course, with such a large portfolio of companies which operate in some difficult environments, things don't always go according to plan, and we do have instances of business failure, governance frailty and environmental concern. However, we work hard with our fund managers so that these are identified and rectified as soon as practicable.

At all levels of business, from the small and medium enterprises to larger corporations, entrepreneurs are transforming their businesses by adopting good commercial disciplines to help them grow. 82% of the portfolio companies included in CDC's evaluation work last year increased turnover and 58% increased profitability. We know that our portfolio companies have paid US$2.2bn in annual taxes to their national governments.

From our evaluation work in 2008, we found that 76% of companies showed an increase in employment with 30,000 new jobs created. In the countries in which we invest, the United Nations estimates that each employed person supports approximately four others. On that basis, we estimate that CDC's 681 portfolio companies are supporting well over 3 million people – a major contribution to development in the poorest countries of the world. Helping businesses to grow in a sustainable manner and, in doing so, creating opportunities for the poor to help themselves and their families out of poverty, is at the heart of all of CDC's investment activities.

Richard Laing
Chief Executive

Statement from the Chair of CDC's Best Practice and Development Committee

I have been a board member of CDC for ten years, participating in its evolution from a direct investor and lender in the 1990s, through the creation of Aureos in 2001 and Actis in 2004, to its successful progression as a leading private equity fund-of-funds investor today. It has been an exciting journey, with several lessons along the way on how to ensure that the public capital entrusted to us delivers the highest possible development value.

During the 2004-07 period, CDC focused on building its new, indirect investment business model. This model is understood and trusted in capital markets and has therefore been very effective in attracting private risk capital into poorer countries in line with our shareholders objective. We have been investing with increasing numbers of new fund managers and thus attracting further third party capital to poor countries, as well as strengthening local investment capacities where capital markets are still very weak. In 2008, we made a major investment in strengthened monitoring and evaluation systems and processes to capture the development effects of CDC's investments.

As an indirect investor, with all the benefits this new business model brings to developing countries, CDC has to be practical and realistic about what data to expect from fund managers. We focus our requests on key information to ensure that:

- investments are profitable, thus returning capital to CDC for further investments and demonstrating to other investors that profitable investments can indeed be made in poor country markets where they are traditionally reluctant to invest;
- investments provide benefits for the local economy, in terms of commercially successful growing businesses that generate employment and tax revenues;
- fund managers and their portfolio companies adhere to responsible investment and business practices from the environmental, social and governance (ESG) perspectives; and
- broader private sector development effects are realised as appropriate and relevant, from privatisations of formerly state-owned companies in China to driving the mobile telephony revolution across Africa.

CDC's Best Practice and Development Committee comprises myself as Chair and three other non-executive directors. It met four times during 2008 and reviews and authorises all monitoring and evaluation work. Importantly, it is independent of the executives who complete the evaluations. Serious incidents are also reported to this Committee (and the board) and we ensure that appropriate action is taken in response.

We will continue our work to strengthen CDC's monitoring and evaluation systems during 2009 as well as the way in which we follow – and require our fund managers to follow – our ESG guidelines, focusing particularly on companies in high-risk sectors. The governance influence which comes with private equity is often considerable. Our fund managers usually have a significant impact in turning their portfolio companies into very effective and often innovative entities.

Over the following pages, we tell the story of CDC's part in supporting private sector development and economic growth across our investment geographies and throughout different sectors of the economy where our portfolio companies operate. We have focused particularly on energy and utilities, information and communication technologies, financial services, microfinance and small and medium size enterprise (SME) funds for this report. We will provide in depth reviews of other sectors in future publications. Our report includes key, summary findings from the 12 evaluation reports that we completed last year. Our work covered 119 of CDC's 681 portfolio companies and produced promising findings as well as highlighting issues for further efforts.

During 2009, we will increase our evaluation work, with 20 new evaluations under way. Seven of these will be completed by external consultants, who will provide an important independent complement to CDC's own evaluation work. We will also commission an independent audit of CDC's processes to implement our new Investment Code.

Finally, during 2009, we will commission work on how businesses in developing countries can assess risks and realise opportunities associated with climate change, as well as how different types of businesses can improve their policies and practices from the gender perspective.

The long run impact on poverty reduction comes from helping to build globally competitive businesses in poor parts of the world. CDC's "intelligent risk capital" attracts co-investment from other equity capital – often genuinely private – as a consequence of the CDC reputation. This enhanced quantum of risk capital in turn attracts pools of loan capital which can benefit considerably from investing alongside CDC's risk capital and the skilled governance of CDC's fund managers.

Prof. Jonathan Kydd
Chair of CDC's Best Practice
and Development Committee

CDC's mandate

Private sector development is the engine for economic growth and poverty alleviation. CDC provides capital for fund managers to invest in new and growing businesses that drive such development. CDC's investments are focused on the poor countries of the world, where there is a shortage of capital. CDC's capital is invested in companies in 74 developing countries with a focus on sub-Saharan Africa.

Chapter

Chapter 1 – CDC's mandate

Capital for private sector development in poor countries

CDC's capital is invested in companies in 74 developing countries[1,2] throughout the world

£928m CDC portfolio value

681 portfolio companies

59 fund managers

127 funds

Private sector development: an engine for economic growth and poverty alleviation

Rwanda grew by 11% in 2008, even though most of the world suffered from a recession during the latter half of the year. Aid as a percentage of Rwanda's gross domestic product (GDP) has been cut by half over the past decade. Wages in key sectors have risen by more than 20% on an annual basis without triggering inflation. This economic progress is impressive for one of the poorest countries in the world with a per capita gross national income (GNI) of about US$260 per year and a recent history of violent political turmoil. Rwanda's president Paul Kagame is hopeful that economic growth through private sector led development will change the lives of Rwandans within a generation.

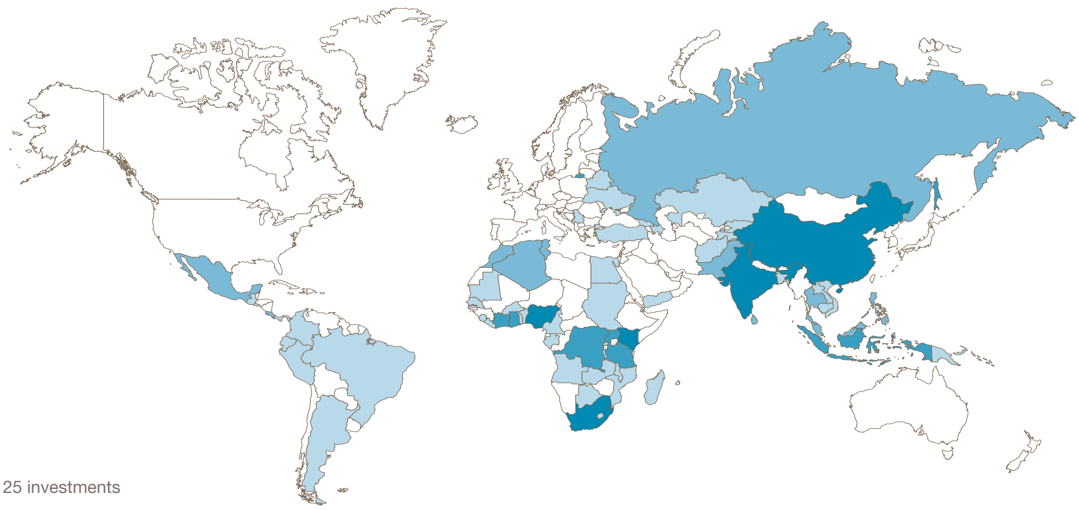
The aspirations of Rwanda, a small and poor landlocked African country, follow the successful examples of countries like China and Malaysia, where private sector led growth has fuelled a revolution in improved living standards and poverty alleviation over the last four decades. South Korea pioneered the Asian private sector led growth boom in the 1960s and 1970s, and has now entered the privileged group of high-income Organization for Economic Cooperation and Development (OECD) countries.

Sustained economic growth in China of around 8% over the past 20 years has lifted more than 400 million people out of poverty. Conversely, no country has succeeded in reducing poverty without economic growth.

One fifth of the world's population, some 1.2 billion people, still live in absolute poverty, surviving on less than US$1 per day. There is a wide consensus among policy makers and economists that growth is the most important factor in sustainable poverty reduction. Research shows that growth accounts for more than 80% of poverty reduction in the long run.[6,7] A World Bank study found that the experiences of 19 low-income countries suggest that 1% of growth in per capita GDP is associated with a 1.3% fall in the rate of extreme poverty and a 0.9% fall in the proportion of people surviving on less than US$2 per day.[8]

Any successful strategy for poverty alleviation must include measures to promote rapid and sustained economic growth. Commercially successful businesses provide employment opportunities which are critically needed in poor countries that often suffer from chronically high unemployment rates. More than 80% of Africa's labour force gain their livelihood through work in subsistence agriculture and the large, informal economy, often through small

CDC's investments by year end 2008: 681 companies in 74 countries



More than 25 investments

15–25 investments

6–15 investments

1–5 investments

"The cycle of aid and poverty is durable: as long as poor nations are focused on receiving aid, they will not work to improve their economies. Nobody owes Rwandans anything. Government activities should focus on supporting entrepreneurship because it unlocks people's minds, fosters innovation and enables people to exercise their talents. We have a clear strategy to export based on sustainable competitive advantages. We sell coffee now for high prices to the world's most demanding purchasers; our tourism experience attracts the best customers in the world and market research reveals that perceptions of Rwandan tea are improving. We belong to a new school of development thinkers and entrepreneurs, with those who demonstrate they have not just a heart, but also a mind for the poor."

Paul Kagame, President of Rwanda, comments in the Financial Times, 8 May 2009.

sales activities. Profitable and growing businesses also generate increasing tax revenues that allow low income country governments to fund their own development programmes, through investments in primary education, health services and infrastructure.

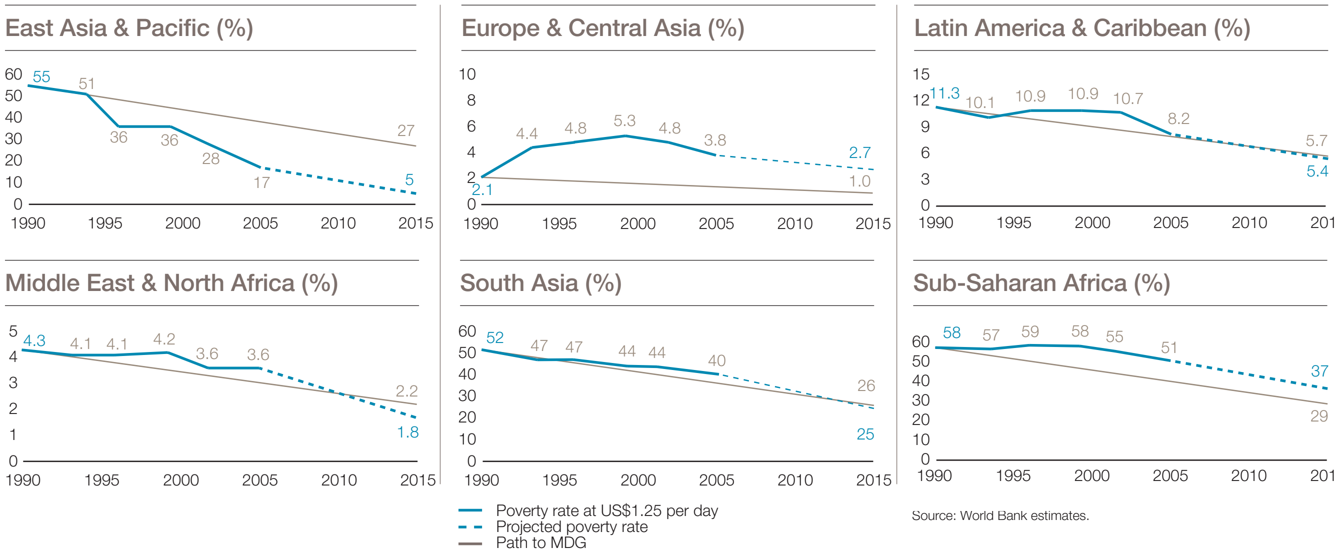
Successful private sector businesses bring a range of benefits to the people in poor countries in terms of expanded access to goods, services and infrastructure. Nearly 75% of Africans do not have power in their homes. 700 million people in South Asia similarly lack access to electricity. A large number of people in sub-Saharan Africa and South Asia still lack access to modern communication technologies and are therefore excluded from benefits arising from connectivity to local and international markets and access to banking and healthcare services now provided over mobile phones and the internet. Quality products and services at affordable prices are still in low supply in many low income countries, particularly in rural areas. Oil and natural resource exploration, if managed sustainably, can be a major driver behind increased income levels and living standards. Agribusiness is the single largest source of employment in poor countries, accounting for 64% of employment and 34% of GDP.[9] Agribusiness and forestry can bring major benefits for economic growth and employment creation, especially in rural areas where job opportunities are usually scarce. Sustainable agribusiness and forestry can also have important positive effects to counteract climate change. Industry accounts for a large and fast growing share of developing countries' economies and often provides relatively secure and well paid jobs.

Businesses across all economic sectors invest in research and development with new innovations to address market needs. They also provide training opportunities for their workforce to improve skills and productivity.

One of the most serious barriers to sustainable economic growth in poor countries is the lack of capital available for new and expanding businesses. While investors from developed countries are increasingly discovering opportunities in China, Latin America and the major Indian cities, commercial investors still shy away from the poorer emerging markets in sub-Saharan Africa, rural India, and other poor country markets which are seen as risky, unknown and problematic.

Total accumulated global foreign direct investment amounts to about US$15.2 trillion. Foreign direct investment in developing economies makes up an estimated US$4.2 trillion of that amount, with a relatively small proportion, US$250bn, invested in sub-Saharan Africa.[10] With more than 80% of the world's population, developing economies host only a quarter of global foreign direct investment stock. Sub-Saharan Africa accounts for one seventh of the world's population, but has received less than 1% of foreign direct investment.

Share of people living on less than US$1.25 per day: actual and estimated progress towards the United Nations' Millennium Development Goal (MDG) to eradicate extreme poverty*



Source: World Bank estimates.

*To halve, between 1990 and 2015, the proportion of people whose income is less than US$1 per day.

CDC's mandate continued

CDC's mandate is to be part of the global effort to bridge this shortage of investments benefiting poor countries, with a particular focus on the underserved countries in sub-Saharan Africa.

Annual global foreign direct investment peaked in 2007, with a total of US$1.9 trillion. With the financial crisis in 2008, foreign direct investment flows were estimated to have declined by 15%, and are expected to further decrease during 2009.[11] The OECD 2009 edition of African Economic Outlook indicates that foreign direct investment decreased by about 10% in 2008 for the 47 African countries covered by the report.[12] The United Nations' agency UNCTAD predicts that the amount of foreign direct investment received by developing nations will decrease during 2009 as well as during 2010.[10]

As a long-term investor in emerging markets, CDC's capital is needed more than ever during the current global economic downturn.

CDC's mandate: capital for development

CDC is a development finance institution wholly owned by the UK government. Supporting the private sector is a key element of the Department for International Development's (DFID) poverty reduction strategy and its private sector programme, and complements DFID's aid and humanitarian support programmes. CDC is a core part of DFID's strategy to support private sector development in its partner countries. CDC invests its capital so as to attract further investors to poor country markets.

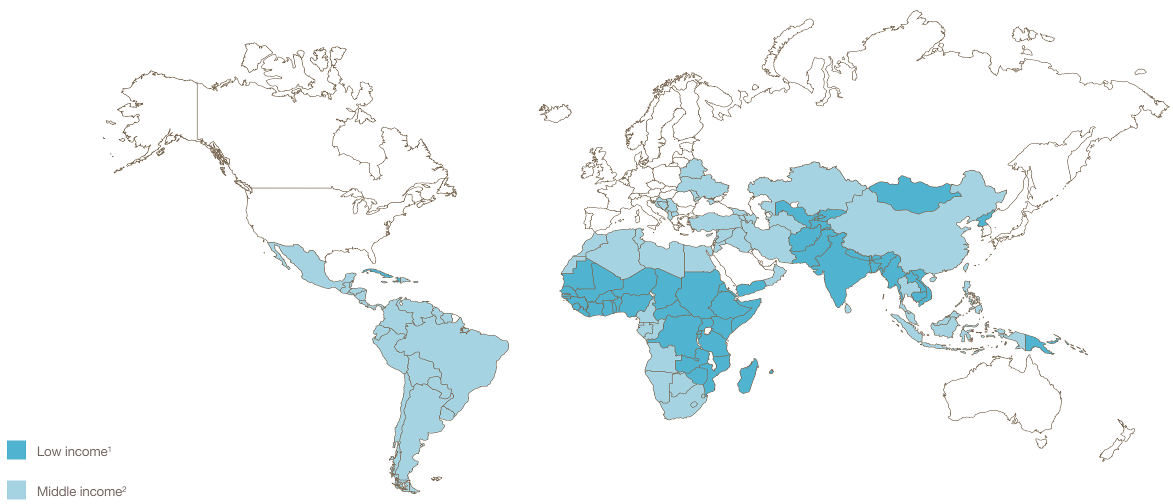
Responsible investment and business practices are crucial to ensure that investments in poor countries generate these development effects without destroying the environment and while ensuring safe and fair working conditions for employees. CDC's mandate is to provide capital for investment in sustainable and responsibly managed private sector businesses and by doing so promote economic growth which ultimately drives a reduction in poverty.

International best practice on environmental, social and governance matters are continually evolving and CDC aims to be at the forefront of best practice. In 2008, CDC updated its standards for responsible investment and business practices in light of developments in international best practice. The resulting new Investment Code on environmental, social and governance matters (ESG) is appended to this report and featured on CDC's website, www.cdcgroup.com.

"If we stop thinking of the poor as victims or as a burden and start recognising them as resilient and creative entrepreneurs and value conscious consumers, a whole new world of opportunity will open up."

C.K. Prahalad, author of "The Fortune at the Bottom of the Pyramid".

CDC's investment universe under the investment policy for 2009-2013



CDC's capital accounts for between 3% and 100% of any one fund. The average is 26%

CDC's fund managers acquire both small and large stakes in companies

CDC's business model: capital and investor know-how to assist businesses in developing countries to grow

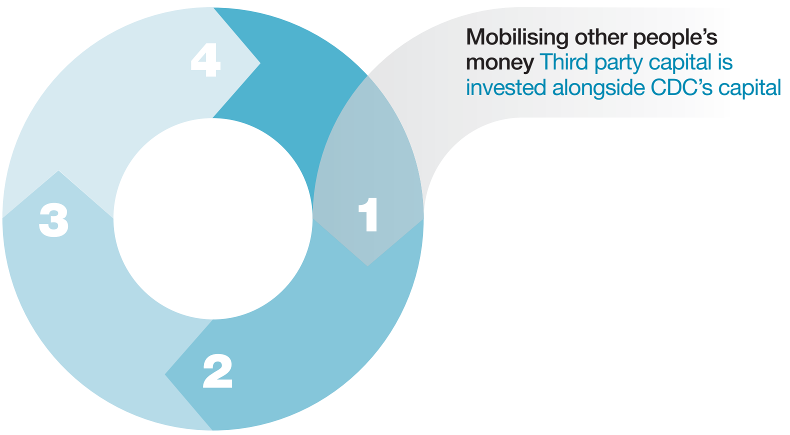
CDC is not a direct investor but deploys its capital through 59 different fund managers investing in 127 funds. CDC's fund managers in turn invest in promising companies in poor countries, providing these companies with access to new capital that allows them to expand and improve upon their businesses. Other investors, both public and private, invest alongside CDC with these fund managers. This creates an increasing pool of capital available for fund managers to invest in businesses in poor countries.

In recent years, CDC has largely committed capital to fund managers that make private equity investments. Private equity funds provide CDC and other investors with an ownership share in the businesses in which fund managers invest. That capital is recovered when such a shareholding is sold several years later. Private equity is a long-term investment vehicle and as such is ideally suited to bring capital to poor countries and to help commercially viable businesses in these countries realise their growth potential in a sustainable way, with subsequent benefits for economic growth and poverty reduction.

The private equity investments of CDC's fund managers usually extend for several years. This provides ample time for entrepreneurs to realise corporate growth opportunities and bring about improvements in business practices. CDC's fund managers play a hands-on role in nurturing the companies in their portfolios and add value through business expertise and the promotion of responsible business practices. In this way, the private equity investments of CDC's fund managers have a direct development benefit in increasing the likelihood of successful and sustainable corporate growth. CDC's fund managers assist their portfolio companies in a variety of ways, including improving corporate governance, a crucial part of this being promoting high environmental and social standards.

Typically after three to seven years of business improvements, CDC's fund managers sell their investments in portfolio companies. This can happen through an initial public offering in the local stock market, a trade sale to another company in the same sector, a new investment by another investor, or, in some cases, an investment by the company's own management. Profits from these sales are returned by the fund manager to CDC and other investors. CDC reinvests the proceeds from these long-term investments in new funds, which in turn deploy CDC's capital with new companies in need of growth capital. Capital that is no longer needed by businesses, which have found other investors, can thus be redeployed in new companies in need of growth capital.

CDC's business model: capital for investment in growing businesses in developing countries



1 **CDC capital**
CDC invests with fund managers.

2 **Fund managers**
CDC's fund managers invest in companies in developing countries.

3 **Portfolio companies**
Portfolio companies expand and improve upon their businesses.

4 **Economic growth**
Fund managers sell portfolio companies and return proceeds to CDC and other investors. Proceeds are reinvested by CDC.

CDC's mandate continued

Current portfolio

Sub-Saharan Africa
50% of CDC's portfolio
£466m, 28 countries

Asia
39% of CDC's portfolio
£363m, 28 countries

Latin America
5% of CDC's portfolio
£49m, 13 countries

North Africa
6% of CDC's portfolio
£50m, 4 countries

Low income countries[1]
56% of CDC's portfolio
£524m

Middle income countries[2]
44% of CDC's portfolio
£404m

£57m in small and medium size enterprise (SMEs) funds

Profitable investments are likely to contribute to economic growth, and through growth to poverty reduction.[13] The links between investments, growth and poverty reduction are well established by academic research. Investments have been referred to as "the foundation of all models of economic growth".[14] By demonstrating profitable investments in poor countries, CDC can encourage other investors to deploy their capital in these emerging markets also.

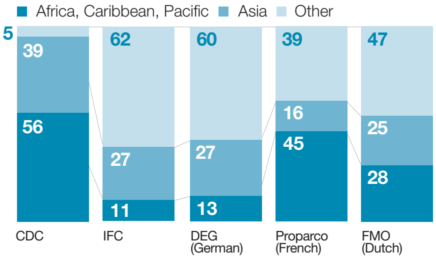
At the end of 2008, CDC had a portfolio value of £928m invested in 681 companies. CDC's new investments, through its fund managers, in 2008 amounted to £436m, a record amount for CDC. In light of the financial crisis and subsequent slowdown in investment activities, it is essential for CDC to ensure that its capital continues to support promising businesses in poor countries. In the future, CDC plans to complement its private equity fund investments with provision of debt capital through financial intermediaries to companies in sub-Saharan Africa, as such capital is in short supply especially in the poorest countries. This allows CDC to invest in countries that are well equipped to attract private equity investment, while making debt capital available to countries where equity is still largely unestablished.

CDC's investments focus: the poorest countries and sub-Saharan Africa

Sub-Saharan Africa has the highest proportion of people living in poverty, with 51% of the population, some 400 million people, below the poverty line. Almost 30% of all poor people in the world live in sub-Saharan Africa. More than 60% of Nigerians, almost 90 million people, live below the poverty line. In Tanzania, more than 80% of the population, 30 million people, are poor. South Africa, a relatively prosperous country by African standards, is home to 10 million people living in absolute poverty, representing 20% of the population. South Asia accounts for more than 40% of all poor people in the world. Almost 600 million people in the region live below the poverty line. The majority of the poor in South Asia reside in rural India, where 340 million people, 44% of the rural population, still live in poverty. Rural China is home to 200 million poor people, accounting for 15% of the world's poor, while the urban centres of the rapidly growing Chinese economy enjoy much higher living standards.[15] By comparison, other emerging markets such as Latin America, North Africa and Eastern Europe have much lower poverty rates as well as lower absolute numbers of poor people.

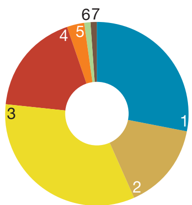
CDC's geographic investment focus compared to other DFIs (100%)*

■ Africa, Caribbean, Pacific ■ Asia ■ Other



* From the EDFI 2008 Comparative Analysis of EDFI Members

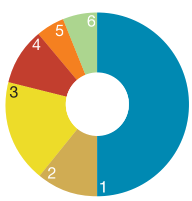
World's poor by region*



1 Sub-Saharan Africa **28%**
2 China **15%**
3 India **33%**
4 Other Asia **18%**
5 Latin America & Caribbean **4%**
6 Middle East & North Africa **1%**
7 Europe & Central Asia **1%**

* Per World Bank regional divisions

CDC portfolio value by region



1 Sub-Saharan Africa **50%**
2 China **11%**
3 India **18%**
4 Other Asia **10%**
5 Latin America **5%**
6 North Africa **6%**

Sub-Saharan Africa is lagging behind other regions in reducing poverty rates. While the rapid economic growth rates in Asia are expected to reduce poverty rates to half 1990 levels by 2015, as stipulated by the United Nations' Millennium Development Goals, 37% of the population of sub-Saharan Africa is expected to remain poor by this time. As a comparison, 25% of the population of South Asia is expected to remain in poverty by 2015.

Compared to other development finance institutions (DFIs), CDC is relatively more focused on the poorest countries. CDC has a higher share of its total investments invested in the low income countries in sub-Saharan Africa and South Asia than any other DFI.

Going forward, CDC's investments will be even more focused on the poorest countries. CDC's investment policy for the 2009-2013 period is to invest the bulk of its capital in sub-Saharan Africa and low-income countries in other regions[1] according to the following targets for new investments:

- 75% in low-income countries;
- 50% in sub-Saharan Africa; and
- up to £125m for small and medium size enterprise (SME) funds in other developing countries.

The new investment policy strengthens CDC's commitment to provide capital to businesses in the countries that need it the most to stimulate private sector development, promote economic growth, and, ultimately, help to reduce poverty.

Sustainable economic growth must be broadly based on a mixed economy. Businesses of all sizes, operating in all sectors of the economy, are a prerequisite for sustainable development. Manufacturing, financial services, technology, consumer goods and services, industry, retail and agribusiness all have vital contributions to make to economic growth and sustainable development. SMEs, start-ups and larger businesses are all important. CDC's fund managers invest across the full range of sectors and in businesses of all sizes and at all stages of development.

This report highlights the development value of multiple industry sectors and focuses particularly on CDC's investments in energy and utilities, information and communication technologies (ICT), financial services, microfinance and funds for investment in SMEs.

Top investment destinations

India
18% of CDC's portfolio
144 companies
£166m

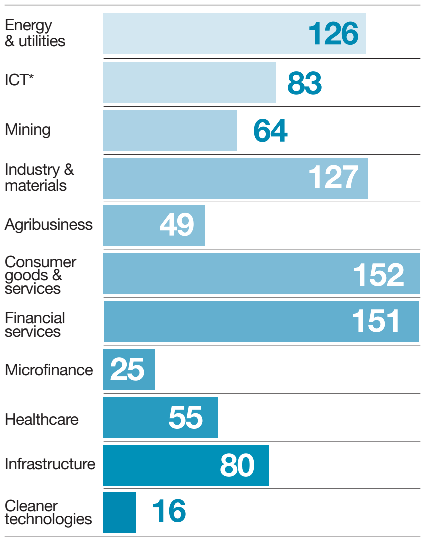
Nigeria
12% of CDC's portfolio
44 companies
£111m

China
11% of CDC's portfolio
93 companies
£101m

South Africa
10% of CDC's portfolio
38 companies
£90m

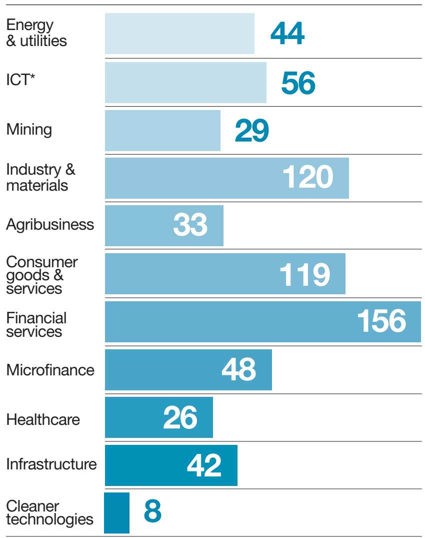
Tanzania
9% of CDC's portfolio
12 companies
£85m

CDC's investment value by sector (£m)

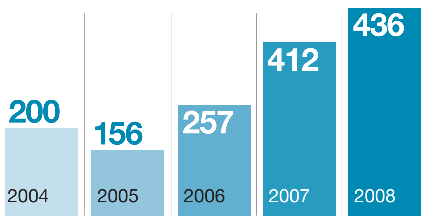


* Information and communication technologies

CDC's portfolio companies by sector (number of companies)



CDC's new investments (£m)



CDC's mandate continued

Kosan Crisplant, Cameroun

Provision of cleaner burning fuel for the rural poor

In developing countries, where people typically use coal and biomass for cooking and heating, indoor air pollution is a major cause of health and environmental problems. Burning indoor fires and stoves exposes people to high levels of pollutants which increase the risk of eye and lung infections. 1.6 million deaths worldwide are attributed annually to the indoor burning of biomass. Without electricity to their homes, families must also spend time each day gathering fuel, which reduces time spent in education or employment. The burden of gathering firewood usually falls on women.

Cameroun has a population of 18.5 million, with around 40% living below the poverty line on less than US$2 per day. A large share of the population, particularly in rural areas, lack access to energy.

Kosan Crisplant Cameroun currently supplies liquefied petroleum gas (LPG) and equipment with the assistance of distributors and retailers through its depots in Douala, Yaoundé, and Limbe, three of Cameroun's largest towns, and in the north-west and western regions of the country. LPG is a cleaner burning fuel than wood or charcoal. It releases fewer greenhouse gases when burnt, emitting no smoke and very few residual particles. It is therefore safer for indoor and domestic use than traditional fuels. Kosan Crisplant Cameroun is a joint venture between the Danish firm Kosan Crisplant, CDC's fund manager ECP, and the Danish development finance institution IFU. It is a start-up company, projected to generate positive EBITDA levels in 2009.

Kosan Crisplant is developing and investing in mobile filling plants to distribute LPG throughout Cameroun. The company aims to access the most remote areas of the country, where lack of basic roads and other infrastructure restricts the availability of LPG.

A key constraint in promoting the use of LPG to the poor is the cost of storage bottles. With help from ECP, Kosan Crisplant has developed a pricing plan to better suit the needs of the lower income consumers. This initiative was designed to reduce the up-front cost of using LPG. Cylinders sold by Kosan Crisplant are subsidised by the company and sold at half of the normal price. The cost of subsidisation is offset by the increased numbers of people buying gas from Kosan Crisplant.

Kosan Crisplant is, accordingly, a major contributor to improving the provision of access to energy for the poor in Cameroun, allowing households to cook in a safe and sustainable manner, with lower emission of greenhouse gases. Delivering fuel to the villages allows the poor, particularly women, to focus on income generating activities and raising their children rather than on collecting fuel.

Kosan Crisplant has worked with the Camerounian Ministry of Energy and Mining to improve national regulations. The company's safety systems and procedures willl set the example for new legislation governing the sector.

Key data[1]

Investment:[2]	€1m
Investment period:	2005-present
Sector:	Industrials, commercial services
Fund manager:	ECP
Employment:	30
Employment growth:[3]	25
Turnover:	€980,700
Turnover growth:[4]	€520,500
EBITDA:	–€206,500
EBITDA growth:[4]	–€28,200
Taxes paid:	US$1,700

Footnotes for Key data
1 From year-end 2008, except for when stated otherwise.
2 €1m invested by ECP. CDC's investment in ECP's Central African Growth SICAR fund is €5m; total fund size is €24m.
3 2005-2008.
4 2007-2008.

Chapter 2

CDC's evolution

Created in 1948 to promote private sector development in the UK's former colonies, CDC has grown the public capital entrusted to it and provided finance to enable ever increasing numbers of companies in developing countries to realise their growth potential. In 2001 and 2004, two new private equity fund managers, Aureos and Actis, were created to manage CDC's existing investments. CDC became an indirect investor and as such, was able to promote further third party capital to be invested in developing countries as well as local capacity building through investments with new fund managers. Today, CDC has £928m invested in 681 portfolio companies through 59 different fund managers with offices in 34 developing countries.

Chapter 2 – CDC's evolution

A new, intermediated, model for development finance

From Colonial Development Corporation to today's CDC Group plc: over 60 years of investment in businesses in poor countries.

1948 > 1950/60 > 1970/80 >

1948
The Colonial Development Corporation – CDC – set up to support private sector development in Britain's colonies. CDC's first offices were established in Kenya and Nyasaland (now Malawi).

1949
CDC makes its first industrial investment in the Chilanga cement plant in Northern Rhodesia (now Zambia) and acquires Borneo Abaca in Malaysia, which was to become a major producer of palm oil.

1952
CDC starts Molopo cattle ranch in Bechuanaland (now Botswana), which was to become one of the largest in southern Africa.

1963
With most British colonies now independent, CDC is renamed Commonwealth Development Corporation.

1970
A loan to Merpati Airlines, Indonesia, is CDC's first investment outside the Commonwealth.

1987
CDC's first investments are made in India and Pakistan.

CDC's new model for development finance

CDC has supported promising businesses in Africa, Asia and Latin America for over 60 years. CDC was the first development finance institution (DFI). It was established in 1948 to strengthen the economies of the former British colonies by providing finance in terms of loans and equity for businesses. In 1970, CDC started investing outside of the Commonwealth. CDC has been profitable in all but four years since 1955. As with many other investors, CDC has seen a decrease in its portfolio value with the global recession during 2008.

For 60 years, CDC has reinvested its profits, allowing increasing numbers of companies to benefit from CDC's capital. CDC has not had any new funding from the UK government for 13 years.

During the first 50 years of its operations, CDC directly provided loans and equity to companies across the emerging markets. Since 2004, CDC has invested primarily through private equity funds that in turn invest in companies in the poor countries of the world. This new investment model for CDC was created from a major restructuring by CDC's shareholder, the UK Department for International Development (DFID). Two new private equity fund managers: Actis and Aureos were created to manage CDC's existing investments and CDC became a fund-of-funds.

The successful creation of Actis and Aureos: two leading new private equity fund managers for emerging markets

As part of the restructuring process, the majority of CDC's staff of some 200 people was spun off into two privately owned private equity fund management companies, Actis and Aureos, the former focused on investment in larger companies in emerging markets and the latter on small and medium size enterprises (SMEs). CDC, which continued to own the financial assets built up over the years, pays Actis and Aureos fees and a share of profits for managing investee companies on CDC's behalf.

At the time of the restructuring in 2004, CDC's aim was principally to stimulate further flows of capital and especially private capital into the poorest countries of the world. The means to do this was firstly to build Actis and Aureos into two world-class private equity management firms focused on the emerging markets, and secondly for CDC to diversify its commitments gradually to fund managers located in poor countries, and in this way build local capacity and stimulate the emergence of better functioning capital markets.

Actis is now a well established name in emerging markets private equity. Aureos is widely recognised as the leading player in investing in SMEs in the developing world. There is probably no other company that can match Actis' size and spread in the emerging markets: the firm now has substantial operations in Africa, India, China, South East Asia and Latin America. Actis is still CDC's single largest fund manager, representing 49% of CDC's portfolio value.

The impact of the restructuring of CDC and the establishment of Actis and Aureos has been dramatic in terms of attracting new capital to poor countries. Actis has raised almost US$2.9bn from investors other than CDC over the last four years, the majority from pension funds, endowments and other private sector institutional investors.

Aureos has raised US$575m for investment in SMEs since 2004. The majority of Aureos' funding has come from DFIs whilst, like Actis, Aureos has also diversified its sources of capital to include pension funds and private institutions. The strong fundraising by Actis and Aureos shows the success of CDC's strategy of investing its capital through these fund managers to attract further investors to poor countries.

1990

1992

CDC invests in its first private equity fund in sub-Saharan Africa, Ghana Venture Capital Fund, to attract more commercial capital to Africa from other investors.

1997

Prime Minister Tony Blair announces that CDC is to become a Public Private Partnership (PPP).

2000

2001

Aureos is created to manage CDC's investments in small and medium size enterprises (SMEs).

2004-2005

Actis is spun out of CDC as a new private equity fund manager charged with managing CDC's previous direct investment portfolio and to raise further private capital for investments in emerging markets. CDC starts operating as a fund-of-funds and invests with 10 new fund managers.

2008

2007

The majority of CDC's investments in power assets through Globeleq are sold, generating record profits that are recommitted with new fund managers.

End of 2008

CDC has £928m invested in:

- 681 portfolio companies
- 127 funds
- 59 different fund managers

CDC’s evolution continued

“CDC has made a credible contribution to economic development in poor countries while also encouraging other foreign investors to engage with them.”

The UK National Audit Office Report on DFID’s oversight of CDC, 2008.

CDC’s 57 new fund managers: local capacity building and catalytic effects for further capital to developing countries

After Actis and Aureos were spun out of CDC, CDC started to commit capital to an increasing number of other fund managers, located throughout the emerging markets.

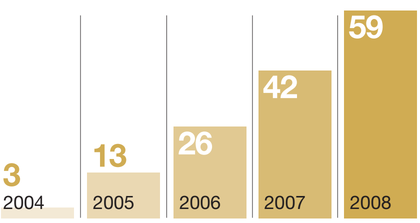
Since 2005, CDC has committed almost US$3.5bn to 57 new fund managers. Alongside CDC’s commitments, other investors have committed US$17.7bn to these 57 fund managers. More than 90% of the capital invested alongside CDC is from private sources. In many cases, CDC played an important role in attracting new investors to funds by working actively with fund managers to help them raise capital. CDC is often seen as a “stamp of approval” for new fund managers in emerging markets, which is reassuring and attractive for other investors. More broadly, CDC has been part of a process through which investors have been encouraged to commit further capital to poor countries.

CDC’s success depends to a large extent on the selection of strong fund managers. CDC looks for experience and a compelling investment strategy:

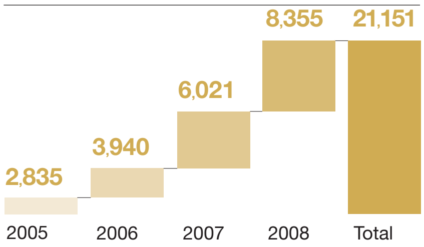
- in line with CDC’s focus on the poorest countries; and
- a record of successful investments in commercially viable and promising companies.

CDC also requires a strong commitment to responsible investment principles and requires its fund managers to sign up to CDC’s Investment Code on environmental, social and governance (ESG) matters.

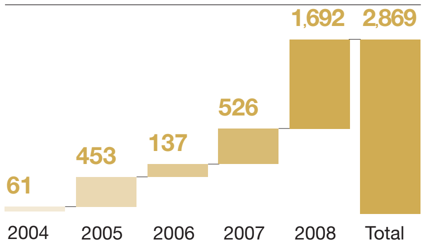
CDC’s fund managers (number)



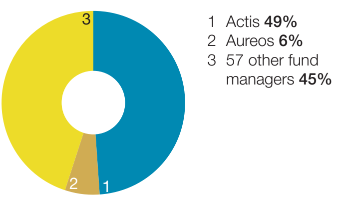
Third party capital invested alongside CDC (US$m)



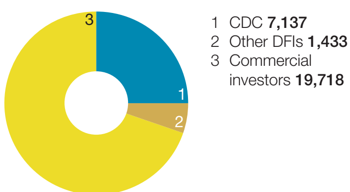
Third party capital raised by Actis (US$m)



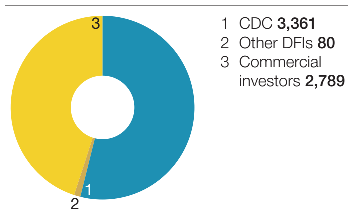
CDC capital invested by fund managers (%)



Total capital committed to CDC’s fund managers 2004-08 (US$m)



Total capital committed to Actis’ funds (US$m)



African Capital Alliance

Emergence of a new, successful West African fund manager supported by CDC

African Capital Alliance (ACA) was the first private equity fund manager in Nigeria. CDC invested US$5m in ACA's first fund in 1999. Along with commitments from the International Finance Corporation (IFC) and the Dutch development finance institution (DFI) FMO, CDC's investment in ACA's first fund represented the only capital raised from investors outside Nigeria following the end of the military dictatorship and the transition to democratic rule. CDC decided to back ACA as a way of developing contacts in Nigeria and insights into a country in which CDC had no recent track record of investing. Ten years later, Nigeria is currently CDC's second largest investment destination with a total of £111m in portfolio value invested by multiple different fund managers in Africa's largest low income country.

ACA's first fund invested a total of US$12m from CDC and other DFIs in ten portfolio companies, alongside a further US$20m invested by private Nigerian investors, most of which proved to be highly successful investments. Most of the portfolio companies were in the telecommunications sector, making a major contribution to Nigeria's telecom boom during the last ten years. Seven of the portfolio companies in ACA's first fund were SMEs. ACA's most successful investment was in MTN, Nigeria's leading mobile phone operator, during its start-up phase. ACA played a major part in MTN's decision to come to Nigeria, as MTN would not have expanded operations to Nigeria without reliable local partners. Eight of the ten portfolio companies in ACA's first fund demonstrated employment growth, creating a total of 6,700 new jobs for Nigerians. MTN also created an estimated 20,000 new indirect jobs. Nine out of the ten portfolio companies in ACA's first fund have shown an increase in turnover. Six of the portfolio companies have demonstrated growth in profitability. ACA has thus far successfully sold most of the ten investments in its first fund, with proceeds returned to CDC and its other investors. As always, CDC has reinvested these proceeds into new, promising funds in poor countries.

Based on ACA's successful track record with its first fund, CDC invested US$17m with ACA's successor fund in 2006. ACA's track record enabled the fund manager to raise a total of US$100m for its second fund, half of which was from commercial investors. CDC was the largest single investor in ACA's second fund and played an active role in assisting ACA with fundraising. Thus far, five of nine portfolio companies in ACA's second fund have demonstrated growth in employment, with a total of 1,300 new jobs created. Portfolio companies in ACA's second fund have so far contributed US$120m in tax revenues to the Nigerian government.

ACA has now initiated a new focus on the oil and gas sector, which will play an important role in promoting indigenous oil and gas firms. ACA has substantially strengthened its management systems to address the environmental, social and governance (ESG) risks involved in investing in oil and gas, particularly given the challenging security situation in the Niger delta. CDC provided considerable support to ACA in its efforts to improve upon its ESG management systems.

With its third fund, which is expected to be substantially larger than its predecessor fund, ACA will continue to play an important role in the strengthening of capital markets in Nigeria and throughout West Africa.

Over the ten years of CDC's engagement with ACA, the firm has grown from its founder Okechukwu Enelamah and his core team to around 20 investment professionals and an associated range of highly qualified specialist consultants.

Key data

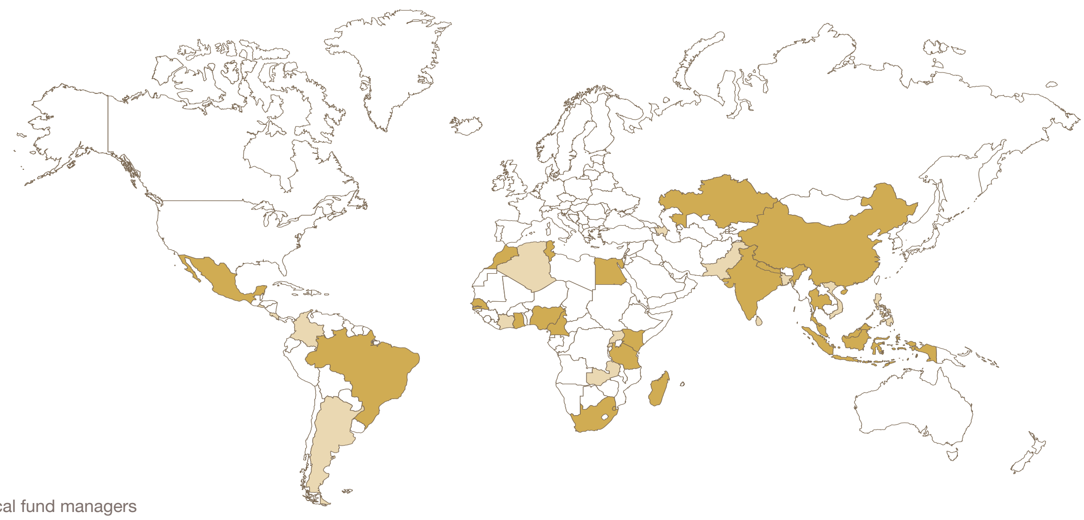
US$52m committed by CDC to 3 funds

16 portfolio companies

9,300 jobs supported by portfolio companies in ACA's first 2 funds

US$120m taxes paid by 9 companies that reported data 2008

CDC's fund managers have offices in 34 developing countries



2 or more local fund managers

1 local fund manager

CDC's evolution continued

Outsourcing Services Limited, Nigeria

Start-up security company which improved standards and was sold at a record price

Outsourcing Services Limited (OSL) was one of the many successful investments in African Capital Alliance's (ACA) first fund.

Successful financial and economic performance:

- ACA acquired a 40% stake in OSL in 1999, the other 60% being held by an international partner, Gray Security Services of South Africa. Gray Security Services was subsequently acquired by Securicor, which then merged with Group 4 to become G4S.
- OSL has been a great commercial success. The company has grown from a start-up to become the leading firm in the outsourced security services industry in Nigeria.
- G4S bought ACA's stake in OSL for US$10m in 2009. This sale realised an IRR of 58% over 10 years. This is one of the most successful exits to date from CDC's fund-of-fund's portfolio.

Responsible business practices and improved standards:

- OSL is a security outsourcing company that supplies security guards. It was a high risk investment, especially given the difficult security situation in Nigeria.
- The minimum wage is strictly enforced.
- OSL's security guards are better trained and better paid than guards at competitor firms.
- The percentage of company revenues spent on salaries at OSL is 51%, as compared to an industry average of around 41%.

Guards are provided with medical insurance and life insurance. OSL's high standards have enabled OSL to charge its corporate clients a premium for its security services. The better training, higher wages and strong employee benefits packages have raised the benchmark for the Nigerian security services industry as a whole.

Key data[1]

Investment:[2]	US$235,000
Investment period:	1999-2009
Sector:	Industrials, commercial services and supplies
Fund manager:	African Capital Alliance
Employment:	5,000
Employment growth:	>4,500
Turnover:	US$34m
Turnover growth:[3]	US$31m
EBITDA:	US$3m
EBITDA growth:	Start-up
Taxes paid:	US$688,000

Footnotes for key data
1 From year-end 2008, except for when stated otherwise.
2 US$235,000 invested by African Capital Alliance's first fund, Capital Alliance Private Equity 1. CDC's investment in Capital Alliance Private Equity 1 is US$5m; total fund size is US$35m.
3 2002-2008.

Promoting responsible investment and business practices

Chapter 3

Responsible investment practices have always been core to CDC's mandate. No longer a direct investor, CDC now promotes responsible investment practices through its 59 fund managers who, in turn, ensure that their portfolio companies improve upon their business practices from environmental, social and governance (ESG) perspectives during their investment period. In 2008, CDC updated its standards for responsible investment and business practices with a new Investment Code, which is included as an appendix to this report.

Chapter 3 – Promoting responsible investment and business practices

CDC's new Investment Code on environmental, social and governance (ESG) matters was launched in 2008.

CDC's work to promote responsible investment and business practices

Poor management by businesses of the environment, social matters and governance (ESG) is common in the developing markets of low income countries. Weak laws ineffectively enforced, a culture of corruption and lax corporate governance standards mean that businesses need not necessarily be driven to protect their environment from the external effects of their activities nor their workers or affected communities from unacceptable risks.

CDC links its investment capital to a commitment by its fund managers and their portfolio companies to adhere to minimum requirements for responsible business practices with respect to ESG and to work over time to improve performance towards international standards. With this commitment, CDC and its fund managers seek to ensure minimum standards and to build awareness among portfolio companies of how proper attention to reduce waste, pollution and energy consumption as well as adequate safeguards for the wellbeing of employees and the communities affected by business activities can be key levers for business success. CDC's fund managers usually structure good governance measures prior to their investments, and implement improvements over the investment period with a strong focus on environmental and social matters. In the medium to long term, CDC has ample examples of how responsible business practices can attract international customers, reduce risks, build stronger brands, and often also reduce costs. The promotion of good business practices in poor countries by CDC and its fund managers is a core aspect of how CDC's investments contribute to development.

Investing through fund managers makes it more of a challenge for CDC to ensure good business practices, as CDC is now one level removed from portfolio companies. However, as CDC's fund managers also invest large amounts of capital from other sources, their investments reach a larger number of companies and they can have a wider influence on responsible business practices than would be possible solely with capital from CDC. A core objective for CDC is to turn the challenge of promoting responsible business practices through an intermediated investment model into an opportunity for wider reaching development effects.

Assessing risks and addressing issues over time

CDC works with its fund managers to ensure that they pay sufficient attention to ESG matters throughout their investment activities. As CDC's fund managers are long term investors, they are well equipped to bring about improvements in corporate ESG practices over time. This is particularly important for fund managers that invest in sectors with significant risks. Responsible investors like CDC and CDC's fund managers have a key role investing in high-risk sectors to bring about better business practices in portfolio companies which helps to promote better standards overall in poor countries.

Industries with particularly high ESG risks include:

- industries with high risks of pollution, such as large factories, oil and gas extraction and refineries;
- activities which affect the natural environment, for example mining, large-scale agribusiness, forestry, and construction of new infrastructure;
- resource intensive industries, including cement plants and aluminium smelters;

CDC requires its fund managers to consider ESG matters in all of their investment activities

Fundraising – CDC investment >

- Formal agreement with CDC to commit to the Investment Code – by CDC's standard side letter or equivalent
- Investment strategy in line with CDC's exclusion list
- Awareness of ESG risks and opportunities and how portfolio companies should address these, e.g. if investment strategy includes high risk sectors like oil and gas, mining, or large scale agribusiness
- Awareness of country/regional ESG risks

Due diligence >

- Assess new investments on ESG matters:
  - > sector risks
  - > issues or opportunities to add value
  - > quality of investee company ESG management systems
- Give new investments a risk rating on ESG matters to determine the appropriate level of management and monitoring

Investment >

- Where fund managers have effective control or significant influence, procure investment undertaking from portfolio companies in line with CDC's Investment Code
- Assist portfolio companies to develop action plans to address any ESG issues identified during due diligence, with appropriate targets and timetable for improvements

Investment management >

- Encourage managers of portfolio companies to:
  - > adopt and implement sound ESG policies
  - > work towards continuous improvements
- Monitor portfolio companies performance on ESG and progress towards action plans for improvements
- If ESG issues arise, assist portfolio companies to address them in a timely manner
- Report annually to CDC
- Monitor and record any serious ESG incidents in portfolio companies and inform CDC

Exit

- Consider ESG matters at divestment:
  - > any ESG issues with potential buyers?
  - > will sound ESG practices continue under new owners?

- businesses which use low skilled workers such as textile production, mining, agribusiness and forestry in countries with weak employment legislation;
- businesses which involve workers handling hazardous substances, for example mining, agribusiness and chemical factories; and
- businesses which can pose health and safety dangers for consumers, such as pharmaceuticals and food producers.

Environmental and social risks are typically lower for investments in financial institutions, media, information and communications technologies or retail.

From the business integrity and corporate governance perspectives, risks and opportunities for improvements could cut across most sectors. Corrupt practices are particularly common in sectors that involve large contracts, not least with governments. Improvements in corporate governance are often called for in companies that have grown quickly whilst still being managed by the founder or an extended family without an independent board and key professional functions such as a qualified Chief Financial Officer (CFO).

Managing ESG matters throughout the investment cycle

CDC requires its fund managers to have ESG management systems that are suitable for the level of risk of the companies in which they invest. This involves conducting thorough environmental and social impact assessments before CDC's fund managers invest in high risk companies in order to identify risks and current issues, often with the assistance of specialised technical advisors. Such technical advisors need to be experienced in the particular high risk sector that a fund manager considers investing in, as well as knowledgeable about the local country and regional situation. Experience in identifying areas for improvements in corporate governance is usually part of a fund manager's core skills. Before or shortly after any new investment, CDC's fund managers should design action plans for appropriate improvements over the investment period. Working with the local fund managers, CDC contributes to building capacity for responsible investment practices and sound ESG management in poor countries.

CDC's new Investment Code on ESG

CDC's new Investment Code was launched in 2008. It can be found on CDC's website and as an appendix to this report. It sets out CDC's principles, objectives, policies and management systems for responsible investment with respect to ESG. The Investment Code replaced and updated CDC's previous Business Principles, which had been used in a similar way, and incorporated developments in international good practice over the last four years. CDC's Investment Code includes an exclusion list, which specifies businesses and activities in which CDC will not invest for ethical reasons.

The core principle of CDC's Investment Code is that businesses in which CDC's capital is invested should work on improving their practices on ESG in line with international good practices over the duration of the investment by CDC's fund managers. While business standards may be weak at the time investments are made, CDC's fund managers work with their investee companies to improve business operations and practices from the ESG perspective during the investment period.

Rating ESG risks – examples of how to categorise companies from the environmental perspective

Risk category	Description of category	Examples
Category A/ High Risk	Significant adverse environmental impacts that are diverse, irreversible or unprecedented	• Large dams and reservoirs • Large scale agribusiness • Large scale forestry • Oil and gas • Mining • Hazardous waste disposal
Category B/ Medium Risk	Potential adverse environmental impacts are less severe than those of Category A. Mitigating measures can be designed more readily	• Small scale agribusiness • General manufacturing • Textile plants • Telecommunications • Food and beverages • Water supply and sanitation • Aquaculture and mariculture
Category C/ Low Risk	Minimal or no adverse environmental impacts	• Advisory assignments • Mortgage securitisation • Life insurance • Media • Information technology

Promoting responsible investment and business practices continued

CDC's fund managers are required to commit to implement CDC's Investment Code, and to use it as a reference standard for their investments. Performance of CDC's fund managers and portfolio companies against the Investment Code is one of the key components of CDC's broader framework for measuring the development effects of its investments, as further described in chapter four. During evaluations, CDC visits a representative sample of portfolio companies, with a focus on companies in high risk industries, to verify sound corporate ESG practices. In 2009, a number of evaluations will be done by independent consultants. CDC's own processes to implement its Investment Code will also be subject to external verifications.

CDC's new Investment Code was developed by CDC in close collaboration with its shareholder, the Department for International Development (DFID), and as a result of extensive consultations with other development finance institutions (DFIs), notably the International Finance Corporation (IFC), and the European development finance institutions (EDFIs). There has been considerable convergence as to what is understood as responsible business management of ESG matters in emerging markets over the last few years. The IFC's Policy and Performance Standards on Social and Environmental Sustainability and the associated IFC/World Bank Environmental, Health and Safety (EHS) Guidelines have been adopted as the standard for direct investments by most bilateral DFIs, including most of the European DFIs, as well as by the Equator Banks.[16] CDC's Investment Code incorporates the IFC's Performance Standards and EHS Guidelines as the reference standards for CDC's fund managers to use for investments in high-risk sectors. The industry specific EHS Guidelines address how to mitigate such risks.

CDC's Investment Code also builds on and aligns with other international conventions and good practice standards on ESG. It incorporates the core labour standards of the International Labour Organisation (ILO), the Extractive Industries Transparency Initiative (EITI), the United Nations' Framework Convention on Climate Change and its associated Kyoto Protocol, the OECD Principles of Corporate Governance, and several other key conventions that have established relevant international norms and standards to protect the environment, ensure decent, fair and non-discriminatory labour and working conditions, safeguard adequate health and safety standards at work, ensure business integrity and promote good corporate governance.

- CDC provides its fund managers with a Toolkit on how to add value to portfolio companies from the ESG perspectives
- CDC will update its ESG Toolkit to align with the new Investment Code
- The updated Toolkit will include new sections on:
  - > how different types of businesses can assess risks and opportunities from climate change
  - > how to improve upon business practices from the gender perspective
- See www.cdcgroup.com

Athi River Steel Plant, Kenya

Providing income for the poorest and improving environmental management of scrap steel recycling

While still a poor country, Kenya is an emerging engine for economic growth in East Africa. Over 40% of the Kenyan population of 35 million live below the US$2 per day poverty line. In 2008, Kenya faced a number of challenges. Lower than average rainfalls negatively impacted the agriculture sector, lowering yields and export revenues. Contested general elections results at the end of 2007 led to bouts of violence during which vital infrastructure was damaged and 300,000 people were displaced. The tensions led to a fall in economic activity, with decreases in production and a decline in foreign investment. The 2008 economic growth rate was the lowest since 2004.

Established in 1996, Athi River Steel is a steel smelting company producing hot rolled steel products from recycled scrap metals. Its products include fasteners, steel springs building and structural materials. When CDC's fund manager Aureos invested in Athi River Steel in 1998 through the Acacia fund in which CDC was a founding investor, the Kenyan steel industry was still in its infancy. 50% of the steel used in Kenya was imported at high, international prices. The little scrap metal that was collected was exported at very low prices. Athi River Steel's business model of sourcing local scrap metals for high quality new steel products proved a success with Kenyan steel purchasers. It also provided important income generation opportunities for an emerging group of scrap metal collection companies. By 2004, there were over 1,000 scrap metal companies registered with the Kenyan scrap dealers association. Athi River Steel estimates that there are over 150,000 people in Kenya who receive income from sales of scrap metal to scrap metal dealers. Aureos made a follow-on investment in Athi River Steel through its East Africa Fund, where CDC was also a founding investor in 2006.

The Athi River Steel plant is located in the Mavoko township 30 kilometres east of Nairobi. It provides jobs in a poor region where there are few employment opportunities outside agriculture. Athi River Steel employs 900 people, many of whom had received no formal training or education prior to joining. The company provides comprehensive training to all staff, providing them with new valuable skills which enhance their future opportunities.

The establishment of the plant stimulated economic activity in the region more broadly, with increasing demand for accommodation, transport, health services and food. For example, a number of local women have established informal businesses providing traditional food to Athi River Steel employees.

The process of smelting scrap metal can be highly polluting, emitting smoke and particles from the furnaces and producing slag as a by-product of melting scrap metals in the furnaces. Athi River Steel, with the assistance of Aureos, has introduced a number of measures to reduce the company's adverse environmental impact. Improvements undertaken and underway include construction of a higher smoke stack with an air pollution control device to manage and reduce emissions from the plant.

With furnaces and heavy machinery onsite, health and safety standards are also an important consideration for Athi River Steel. In order to improve the general health and safety standards at the plant, the company has engaged a health and safety specialist and is committed to bringing in best practice on health and safety risk management and ensuring that operations meet international standards.

Key data[1]

Investment:[2]	US$7m
Investment period:	1998-present
Sector:	Manufacturing
Fund manager:	Aureos
Employment:	900
Employment growth:[3]	280
Turnover:	US$16m
Turnover growth:[3]	US$6m
EBITDA:	US$3m
EBITDA growth:[3]	US$0.1m

Footnotes for key data
1 From year-end 2008, except for when stated otherwise.
2 US$7m invested by Aureos. CDC's investment in Aureos East Africa Fund is US$8m; total fund size is US$40m.
3 2006-2008.

This will allow Athi River Steel to mitigate health and safety risks as well as to demonstrate leadership in environmental and social management compared to its competitors.

Athi River Steel is expected to continue to grow in turnover and profitability. This growth will contribute to local employment and economic growth in an environmentally sound and socially responsible manner.

Promoting responsible investment and business practices continued

Shelys Pharmaceuticals, Tanzania

Growing a successful pharmaceutical business through improvements in drug safety

Malaria is a major killer in developing countries. In 2006, Tanzania reported 11.5 million cases of malaria and many more cases go unreported. Malaria is attributed to inhibiting economic growth by as much as 1.3% per annum in countries where infection rates are high.[17]

Shelys is a Tanzanian pharmaceutical manufacturer, specialising in over-the-counter products. The company benefited from a five year investment from CDC's fund manager Aureos which was successfully exited in 2008. Shelys produces a range of pharmaceutical products including generic anti-malarial drugs. Aureos assisted Shelys in acquiring the Kenyan company Beta Healthcare, significantly growing its distribution footprint in East Africa. In addition, with Aureos' support, Shelys constructed a new state of the art manufacturing plant to replace its facility in Tanzania.

Shelys employs 550 people and complies with all local labour legislation as well as the International Labour Organisation's fundamental conventions. Basic wages for all staff exceed the national minimum and staff receive uniforms, housing and transport allowances as well as one free meal per day.

Although Tanzania has no formal codified environmental requirements for the pharmaceutical sector, Shelys has worked to ensure that World Health Organisation (WHO) standards on effluent discharge are met. With Aureos' support, Shelys has made the following improvements to its operations:

- Separate drainage facilities for waste water to ensure safe effluent discharge.
- Reduced dust and particle emissions by introducing a high efficiency particulate air filter which meets European Union standards.

Production standards at Shelys are in the process of being raised to WHO good manufacturing practice (GMP) standards. While WHO GMP is not required for drugs sold in Tanzania, improving production standards has provided access for Shelys to markets in eight other countries across Central and Eastern Africa.

With guidance from Aureos, Shelys introduced tighter financial controls and improved corporate governance with the creation of new board committees for oversight.

Shelys leading position in East Africa, coupled with improvements in manufacturing standards and improved corporate governance, persuaded Aspen Pharmacare, sub-Saharan Africa's largest pharmaceutical manufacturer to acquire a majority stake in Shelys as part of its African expansion strategy. This is a clear example of how ESG improvements go hand in hand with the business and investment case.

Key data[1]

Investment:[2] US$4m
Investment period: 2003-2008
Investment sold: 2008
Sector: Pharmaceuticals
Fund manager: Aureos
Employment: 550
Employment growth:[3]
Reduction of 160 temporary workers while permanent employment has risen by 80.
Turnover: US$24m
Turnover growth:[3] –US$2m
EBITDA: US$3m
EBITDA growth:[3] –US$1m

Footnotes for key data
1 The data is from 2006, except for when stated otherwise.
2 US$4m invested by Aureos. CDC investment in Aureos East Africa Fund was US$8m; total fund size is US$40m.
3 2004-2006.

Measuring the development effects of CDC's investments

Chapter 4

Economic growth and poverty alleviation result from multiple factors including capital for private sector development. CDC measures the contributions of its investments towards these overarching development goals along four parameters: financial performance, economic performance, ESG performance and private sector development, which collectively make up the development outcome of a fund investment. CDC also assesses its own effectiveness. In 2008, CDC strengthened its monitoring and evaluation system and conducted evaluations of 12 funds, covering 119 portfolio companies in sub-Saharan Africa and Asia. The results of these evaluations were promising, while also highlighting areas for improvements.

Chapter 4 – Measuring the development effects of CDC's investments

CDC strengthened its monitoring and evaluation system and completed 12 fund evaluations in 2008.

The objective of CDC's investments is to address the shortage of capital available for businesses in poor countries which enables them to realise their growth potential in a responsible manner, and thereby contribute to economic growth for the benefit of the poor. Development capital, however substantial, is only one contributing factor behind economic growth and poverty alleviation. CDC's monitoring and evaluation work aims to ensure that CDC's capital is deployed in such a way that its fund managers and their portfolio companies contribute to these overarching development goals.

CDC wants to see the businesses in which its capital is invested expand and improve upon their operations and thereby generate employment, pay increasing amounts of taxes and contribute to broader benefits for consumers in poor countries with increased availability of better quality goods, services and infrastructure without damaging the environment and while ensuring sound working conditions and safeguarding the interests of the local communities. CDC also assesses whether its fund managers are effective in raising and investing further capital beyond CDC's investments and in other ways contribute to the development of more efficient local capital markets which benefit economic growth.

To assess whether its investments have such positive effects and to identify issues if and when they occur, CDC regularly monitors and periodically evaluates its fund investments. Recording positive effects as well as issues, CDC's monitoring and evaluation work captures lessons and improvements and enables CDC to work with its fund managers to make sure that problems are solved and avoided for the future. The information captured through CDC's monitoring and evaluation system also serves to inform the wider public about CDC's use of its capital for the benefit of poor countries. This report builds on information collected through CDC's monitoring and evaluation work in 2008.

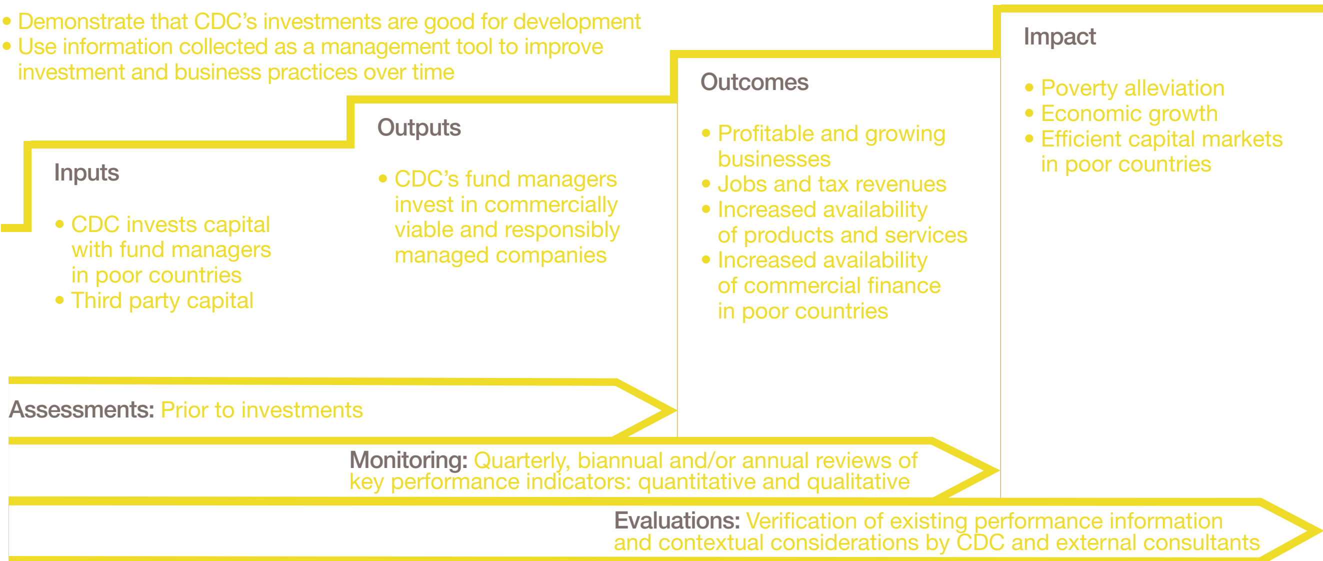
As CDC now invests through 59 fund managers, information about the 681 different companies of all sizes and spread over 74 countries in which CDC's capital is invested is challenging to acquire. CDC has to be practical and realistic about what developmental indicators to focus on, and to request consistent data from its fund managers to show performance over time. The annual reports received from fund managers are complemented with more in-depth periodic evaluations to show the wider context of CDC's investments and their development value.

CDC's new monitoring and evaluation system

During 2008, CDC undertook a major review of its system to assess the contributions of its investments to development. After benchmarking extensively with other development finance institutions (DFIs), CDC decided to adopt a monitoring and evaluation framework which is similar but not identical to that used by the International Finance Corporation (IFC) for investments through financial intermediaries. CDC also actively collaborates on monitoring development effects with the other European Development Finance Institutions (EDFIs).

CDC's monitoring and evaluation system captures development effects over time

Key objectives for CDC



CDC's new monitoring and evaluation system is intended to be practical, simple and deliver the key information required by CDC for its investment management and communication purposes, as well as for CDC's Board and shareholder, the UK Department for International Development (DFID), for their oversight functions.

The monitoring and evaluation framework used by CDC includes four key parameters to assess the overall **development outcome** for each fund investment, based on the performance of a fund as well as its underlying portfolio companies:

- **financial performance** – indicating whether investments are profitable; thus returning capital to CDC for further investments and demonstrating to other investors that profitable investments can indeed be made in emerging markets where they are traditionally reluctant to invest;

- **economic performance** – indicating 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;

- **ESG performance** – indicating whether fund managers and their portfolio companies adhere to responsible investment and business practices in line with CDC's Investment Code and whether portfolio companies over time improve upon their practices from the environmental, social and governance (ESG) perspective; and

- **private sector development** – indicating whether CDC's investments have broader private sector development effects including increased availability of capital for businesses in low income countries from the third party capital invested alongside CDC; more efficient capital markets; improvements to regulatory environments from contributions by fund managers or portfolio companies to new standards and legislations; and increased availability of better quality goods, services and infrastructure for the benefit of local communities.

CDC has selected a limited, core set of about 30 indicators for performance measurement for these performance dimensions. Details are provided in an appendix to this report.

CDC also monitors and evaluates its own **effectiveness** in terms of **adding value** to the investment work of its fund managers in various ways and in assisting fund managers to raise further amounts of capital, thus having a **catalytic effect** for increased capital flows to poor countries.

CDC uses its monitoring and evaluation framework to:

- systematically record information for new investments;
- annually monitor many of the key indicators for each of the four performance dimensions; and
- systematically evaluate all fund investments at the mid-point of their investment duration, typically five years after CDC's investment, as well as at the end of the duration of each fund.

For evaluations, CDC operates a six-scale rating against each performance parameter, ranging from excellent to poor. Such a six-scale rating forces a judgment of performance and introduces nuances to the performance assessment. The aggregate rating of **financial performance, economic performance, ESG performance** and **private sector development** makes up an overall rating for the **development outcome** of each fund investment.

Similarly, the aggregate rating of CDC's **added value** and **catalytic effects** makes up the rating for **CDC's own effectiveness.** Similar six-scale ratings are used for evaluations by the IFC and other DFIs.

CDC's monitoring and evaluation framework and indicators

Development outcome	Concept	Performance indicators
Financial performance	• Fund managers' ability to attract commercial capital to poor country markets > Financial return to investors	• Net IRR of funds versus investment targets • IRR for each exit
Economic performance	• Contributions to economic growth > Commercially viable and growing businesses that generate employment and pay taxes	• Employment • Taxes paid • EBITDA and turnover (increase over time) • SMEs and low income reach (if relevant)
ESG performance	• Responsible investment and business practices with respect to the environment, social matters and governance (ESG) > fund managers' ESG management systems and the ESG performance of portfolio companies	• ESG issues and improvements over time • Development outlays (if available) • Environmental products/services (if relevant)
Private sector development	• Broader private sector development effects: > More efficient capital markets > Regulatory improvements > Benefits to customers from increased availability of goods, services and infrastructure	• Third party capital • Local capacity building • Enhancements to sectors and benefits for consumers e.g., increase in telecom penetration, new infrastructure, increased access to power and financial services

CDC effectiveness	Concept
Catalytic effects	• CDC's direct role in bringing in other investors > focus on commercial capital
Added value	• CDC's direct contributions to improve the way fund managers invest CDC's capital, e.g.: > to shape a fund's investment thesis or terms > to improve fund managers' ESG management systems > to recruit or contract key technical expertise for responsible and successful investment management

Measuring the development effects of CDC's investments continued

The evaluations covered:

12 funds

7 fund managers

119 portfolio companies

£139m portfolio value

9 mid-point evaluations

3 final evaluations

CDC's evaluation work in 2008 covered funds investing in companies of all sizes and in all sectors across sub-Saharan Africa and Asia

CDC's monitoring and evaluation work in 2008

In parallel with updating and improving upon its monitoring and evaluation (M&E) methodology, CDC started to make use of its new M&E system during 2008 and used this year to test and improve upon indicators and templates for reporting and evaluation purposes. Requests were sent to CDC's fund managers for more extensive information on non-financial matters, including data on employment in portfolio companies and taxes paid and reports on ESG matters. Most of CDC's fund managers responded to these requests, providing CDC with an improved understanding of its investment portfolio from the development perspective.

During 2008, CDC completed evaluations of 12 fund investments, covering seven different fund managers and 119 portfolio companies with a total aggregate portfolio value of £139m. Actis and Aureos both managed more than one of the funds evaluated. CDC's investment team visited a representative sample of the portfolio companies included in the evaluations, with a special focus on companies that were considered to be high risk from an ESG perspective.

CDC will continue the work to strengthen its monitoring and evaluations systems and practices during 2009. Seven of the 20 evaluations that are planned for 2009 will be outsourced to external consultants. CDC will also continue to work with its fund managers to improve upon their reporting practices.

CDC has used the information generated from its monitoring and evaluation work in 2008 to inform strategy development and new investment decisions.

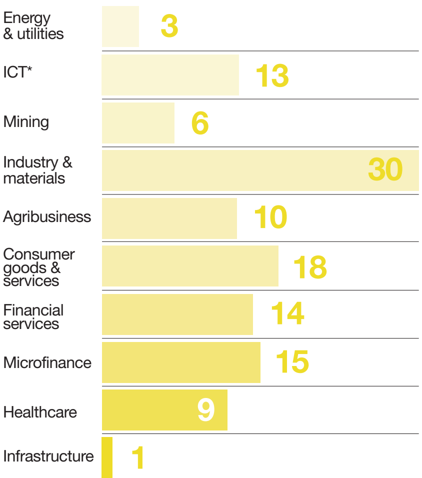
12 evaluation reports completed in 2008

The 12 evaluations completed by CDC in 2008 represent more than one sixth of the total number of CDC's current portfolio companies.[18] In total, the funds evaluated represent about one tenth of CDC's total portfolio value.

Five of the evaluations covered CDC's investments in sub-Saharan Africa, including 54 different companies, most of them small and medium size enterprises (SMEs). Six evaluations covered funds that invest in Asia, with a focus on India but also including other countries in South Asia, South East Asia and one fund in China.[19] One of the evaluations assessed a global microfinance fund, which invested in 15 different microfinance institutions in many countries, including Bangladesh, Cambodia, India, Kenya, Nigeria, Pakistan, the Philippines and Rwanda.

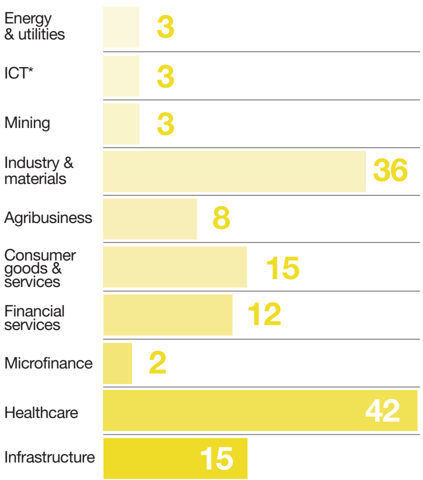
About half of the companies covered by the evaluations were relatively large businesses where CDC fund managers have invested growth capital. About 40% of the companies covered by the evaluations were investments by SME funds.

Portfolio companies evaluated by sector (number of companies)

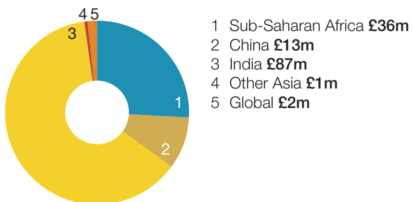


* Information and communication technologies

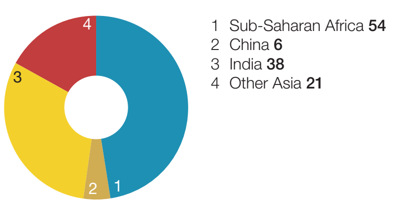
Portfolio companies evaluated by sector (portfolio value, £m)



Regions covered by evaluations (portfolio value, £m)



Regions covered by evaluations (number of portfolio companies)



The 119 portfolio companies covered by the evaluations represent most sectors, including e.g., mining, healthcare, agribusiness, financial services and energy and utilities. The single largest number of portfolio companies included in the evaluations were industrial businesses, followed by information and communication technologies and consumer goods and services.

The amount of capital committed by CDC to the 12 funds evaluated ranged from three large investments of £75m or more to four smaller commitments of less than £6m. CDC's investments ranged from an interest of 91% in one fund to three cases where CDC's interest was below 10%. Most commonly, CDC's investment represented 20-35% of the funds.

Three of the evaluations were conducted at the end of the duration of the funds' life. The final evaluations assessed the performance of these funds and their portfolio companies over a nine to 11 year period. Nine of the funds evaluated were at the mid-point of their investment period. In several cases, CDC's evaluations were performed at the time when fund managers were raising successor funds. For these fund managers, the evaluations were instrumental in guiding CDC's new investment decisions.

Members of CDC's investment team prepared the evaluation reports and made recommendations on evaluation ratings to CDC's investment committee. CDC's investment committee for the purposes of approving the ratings does not include members of the team that produced the report but does include CDC's Chief Executive and other members of the management team. After review by CDC's investment committee, which in some instances led to evaluation ratings being changed, the evaluation reports were submitted for approval to CDC's board committee on best practice and development.[20]

During 2009, CDC will use its findings from the evaluations conducted during 2008 to further strengthen its evaluation processes and, through further experience, improve upon the guidance notes used for evaluations and ensure consistency in evaluation ratings. The evaluations that will be undertaken by independent consultants during 2009 will also be helpful for this purpose.

Evaluation results and key findings

The overall results from the 12 evaluations were promising. Nine of the evaluation reports were rated as overall successful in terms of **development outcome**.[21] Only one fund was rated overall as below expectations.

Executive summaries from a sample of the evaluations completed during 2008 are provided below. More detailed analyses of results from the financial, economic, ESG and private sector development perspectives are provided in subsequent sections:

- A large growth capital fund invested in 14 different companies across all sectors in South Asia. This fund was mostly invested in companies in India, but also pioneered private equity investments in Pakistan and Sri Lanka. The fund manager was one of the early private equity firms to place a strong emphasis on ESG matters in the region. The fund manager used in-house specialist staff and consultants to work with portfolio companies across a spectrum of industries, including large factories and chemical plants, to bring about less environmentally damaging practices, improvements in health and safety standards and strengthened corporate governance. In two cases, there were fatalities at factory sites. The fund manager took these matters very seriously and ensured that proper investigations were undertaken. All companies in the portfolio grew in terms of turnover. Ten of the 14 companies grew in terms of profitability, as measured by EBITDA. Almost 14,000 people were employed in the fund's 14 portfolio companies, which collectively paid US$67m in taxes to local governments during 2007.
- A fund manager pioneered investments in small and medium size enterprises (SMEs) in the Pacific islands where foreign direct investment is still uncommon. Whilst an unfavourable economic and political environment contributed to low financial returns from this fund investment, CDC considered its developmental impact in the region to have been important, as the eight investee companies within its portfolio would not have been able to sustain or expand operations without the investment from this fund manager. The fund supported the creation of 650 new jobs, and generated US$43m in tax revenues in some of the region's poorest countries, including Papua New Guinea.

Summary of CDC's evaluation ratings in 2008

	Excellent	Successful	Satisfactory	Below expectations	Unsatisfactory	Poor	% satisfactory or better
Development outcome*	0	9	2	1	0	0	92%
Financial performance	2	4	4	0	2	0	83%
Economic performance	2	7	2	1	0	0	92%
ESG performance	1	7	4	0	0	0	100%
Private sector development	3	8	1	0	0	0	100%
CDC effectiveness**	0	8	4	0	0	0	100%
Added value	0	6	6	0	0	0	100%
Catalytic	4	3	2	3	0	0	75%

* Development outcome is the summary, aggregate rating from the categories' financial performance, economic performance, ESG performance and private sector development.

** CDC effectiveness is composed of a qualified assessment of whether CDC's staff added value and/or had catalytic effects for third party capital for funds beyond its own investment capital.

Measuring the development effects of CDC's investments continued

- Another fund manager successfully provided growth capital for SME development for 14 companies in East Africa as one of the first sources of such finance in the region. All of these companies exhibited growth in turnover and ten grew in profitability over the investment period. 12 of the 14 portfolio companies demonstrated employment growth, with a total number of 3,700 jobs supported by the fund's capital.
- One fund similarly provided successful growth capital for SMEs in Southern Africa. There were major improvements in practices from an ESG perspective during the fund manager's investment period, with the fund manager often instrumental in addressing issues and implementing improvements over time.
- A microfinance fund demonstrated strong returns from investments in microfinance institutions (MFIs) and SME banks which provide financing to low income populations. The engagement of the fund manager with the managers of these MFIs and SME banks was key for this success. The fund invested in MFIs and SME banks across 15 different countries.
- One fund focused almost entirely on buyouts of state owned enterprises in China. In this process, it increased productivity in the businesses that it invested in and achieved a more efficient allocation of capital. Though investments are still at an early stage, the portfolio companies are all promising and solid.

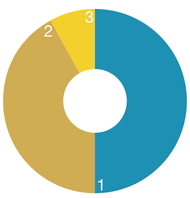
CDC's effectiveness: added value and catalytic effects

In addition to evaluating the **development outcomes** of its fund investments, CDC assessed its own effectiveness in terms of making direct contributions to the success of its fund investments. CDC analysed whether its employees could demonstrate effective work with the fund managers to raise further capital, or whether CDC's staff in other ways added value to the investment activities of fund managers or the practices of their portfolio companies. To avoid the perception of subjectivity, the evaluation reports had to detail accurately how and why CDC considered itself to have **added value** or been **catalytic** for fundraising. Eight of the 12 evaluations concluded that **CDC's effectiveness** was successful. CDC rated its work with the remaining four funds as satisfactory.

For all of the 12 funds evaluated, CDC's assessments were able to demonstrate several instances of **added value** to its fund managers, ranging from assisting the fund managers to design their investment strategy, helping fund managers improve financial reporting and valuation methodologies, or improving the way fund managers worked with their portfolio companies to improve management of ESG matters. CDC's *Toolkit for Fund Managers: Adding Value on ESG* was widely perceived as helpful. Six of the 12 evaluations concluded that CDC had been successful in adding value to its fund investments in one or more ways. The remaining six were rated as satisfactory.

While it is not usually possible to attribute directly decisions of other investors to invest in funds alongside CDC to CDC's influence, the evaluation work concluded that CDC had performed at least satisfactorily on **catalytic effects** for 75% of the 12 funds evaluated. For three funds, the evaluations concluded that CDC would have expected to perform better in attracting other investors, resulting in a below expectation rating. For four funds, CDC rated its catalytic value as excellent: these funds simply would not have existed without CDC's commitment.

Funds evaluated by type of investee company (%)



1 Growth capital* **50%**
2 SME **42%**
3 Microfinance **8%**

*Growth capital is invested in larger companies.

Chapter 5

Development highlights in 2008

Financial performance: CDC's unrealised portfolio valuation suffered from the global recession in 2008, similarly to most other investors. The reduction in CDC's portfolio value, however, was far less than that of its market comparator. CDC's fund managers were able to realise some successful exits despite the market downturn.

Economic performance: 676,000 people were employed in the 514 portfolio companies that reported employment data to CDC in 2008. US$2.2bn in tax revenues were generated by the 390 companies that reported tax data. From the 12 evaluations, 82% of the portfolio companies increased turnover, 58% increased profitability as measured by EBITDA, and 76% showed an increase in jobs.

ESG performance: Evaluation work and reports from fund managers demonstrated that many companies in developing countries experience issues from the environmental, social and/or governance perspective, and that CDC's fund managers work extensively with their portfolio companies to improve corporate practices.

Serious incidents occurred in some of CDC's portfolio companies. CDC takes these incidents very seriously and requires its fund managers to address any contributory issues.

Private sector development: US$21.2bn in third party capital has been invested alongside CDC, mostly from commercial investors. Most of CDC's fund managers are based in developing countries with offices in 34 countries. Many are first time fund managers. CDC's evaluation work brought out multiple aspects of the private sector development contributions of CDC's fund managers and their portfolio companies.

Chapter 5 – Development highlights in 2008

Financial performance

The ability of CDC's fund managers to generate a strong financial return on their investments demonstrates to other potential investors that it is worth the higher perceived risk of investing in emerging markets. Attracting other investors to poor countries is one of the key reasons why CDC strives to maximise the financial returns from its investments. The other reason is CDC's ambition to grow rather than dilute the public capital entrusted to it to be able to continue to use the proceeds from successful investments to re-invest in new companies in need of capital.

The annual valuation of CDC's investment portfolio reflects current market valuations of the funds CDC invests in, which are based on the underlying valuations of the funds' investments in companies. CDC, like most other investors, suffered from the global economic downturn during 2008. The upheaval in emerging market stock exchanges and subsequent downgrades to company valuations negatively impacted CDC's portfolio. Gross portfolio performance for CDC in 2008 in US$ was a loss of 33%, compared to a gain of 57% in 2007. CDC's total loss for 2008 was £359m, driven by unrealised portfolio valuation losses. Suffering from the financial crisis, CDC's portfolio fell by 33% while outperforming the comparison most commonly used for emerging markets investments, the MSCI Emerging Markets Index which dropped by 55%. Over the last five years, CDC's average annual total returns have been 18%. CDC's total portfolio value at the end of 2008 was £928m.

CDC made a record number of new investments during 2008, amounting to £436m. These new investments added to CDC's investment portfolio, which meant that the total portfolio value at the end of 2008 was comparable to the portfolio value at the end of 2007, despite the unrealised losses in the value of funds held from one year to the next.

CDC's fund managers return cash to CDC and their other investors when they sell portfolio companies, typically four to seven years after their initial investment. A successful sale, returning capital beyond the amount invested, means that a portfolio company has proven strong enough to attract the interest of other investors or a buyer from another company, and no longer needs the financial backing from CDC's fund managers. Despite the financial crisis, CDC's fund managers realised some strong exits during 2008, resulting in net realised profits of £22m.

£928m CDC portfolio value

£436m record new investments

-£359m total loss

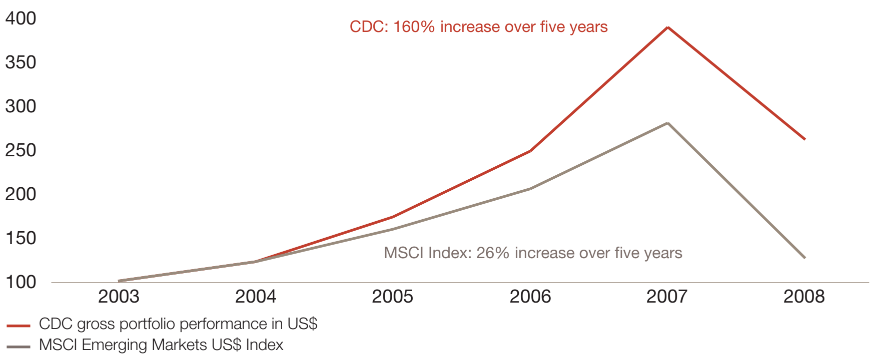
CDC annual performance was -33% compared to MSCI index of -55%

Examples of companies that were sold by CDC's fund managers during 2008 included:

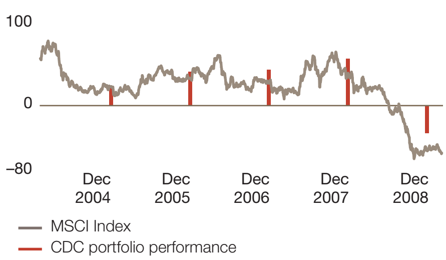
- **Trinethra, a retail store operator in India** – India Value Fund 2, a growth capital fund managed by India Value Fund Advisors, sold Trinethra at 4.2x its investment cost, realising an internal rate of return (IRR) of 238%. This successful exit was the result of Trinethra having used the fund manager's investment to increase its network of retail outlets across southern India, adding more than 80 stores to its operations.

- **Starcomms, Nigeria's fourth largest telecoms operator** – Actis realised a partial exit from its investment in

CDC return over 5 years versus market index (MSCI)



MSCI US$ Index return versus CDC US$ portfolio return (%)



Nigeria's fourth largest telecom operator through an initial public offering (IPO) on the Nigerian stock exchange at 2.9x investment cost, realising a 45% IRR. Since Actis invested with Starcomms in 2005, the operator expanded its subscriber base from 140,000 voice connections to 884,000 connections with operations in 11 different Nigerian states.

- **UAC, Nigerian food services** – Actis sold 11% of its 20% shareholding in UAC, a leading food and food services company in Nigeria. Actis' investment in 2004 allowed UAC to expand its fast food restaurants rapidly to meet a strong and growing demand from Nigerian customers in an undersupplied market. Actis exited its investment through the Nigerian stock exchange at 4.5x investment cost, realising an IRR of 56%.
- **Shunda, a Chinese manufacturer of silicon wafers for solar power cells** – Actis exited its investment in Shunda through an IPO on the Chinese stock exchange at 3.1x investment cost and realised an IRR of 138%. During the period of Actis' investment, Shunda expanded rapidly in response to the growing demand for clean energy from solar power to become one of China's top four companies in this sector.
- **Industrial Development Finance Company (IDFC) an Indian financial institution** – IDFC was established to catalyse commercial funding for infrastructure projects. Actis sold its share of IDFC after a nine-year holding period, returning a cash multiple of 11.2x with an IRR of 30%.

Evaluation results in 2008

For the 12 funds evaluated by CDC in 2008, the current valuations of these funds were rated against their net IRR investment targets at the time of CDC's commitments.

For **financial performance**, evaluation ratings were spread across five of the six rating categories in CDC's evaluation framework, with two funds receiving the highest possible rating, excellent, and two funds rated as unsatisfactory. Three of the evaluations were final, conducted at the end of these funds' investment duration when actual returns were known. The fund that was rated as excellent for its final evaluation had a net IRR of 40%, with some investments still to be sold. The two funds that were rated as unsatisfactory for their final evaluations had positive net IRR returns while substantially lower than their investment targets.

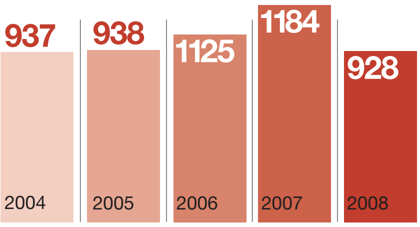
The challenge of rating the financial performance of funds at the mid-point of their investment duration was recognised, as few exits have taken place at this stage. The mid-point evaluation ratings were based on CDC's current valuation of these funds. Most mid-point evaluations were rated as either satisfactory or successful on financial performance. The only fund that was rated as excellent for a mid-point evaluation had one realised exit with a net IRR above 200%.

Out of the total of US$2bn committed by all investors to the 12 funds that were covered by CDC's evaluation work in 2008, US$1.3bn had been invested in portfolio companies at the time of the evaluations. For the three funds that were evaluated at the end of their investment duration, US$36m out of a total of US$50m in commitments had been invested in portfolio companies. One of the funds that was rated as unsatisfactory on financial performance at the end of its investment duration accounted for most of this difference.

Examples from CDC's evaluation work of fund managers working actively with portfolio companies from a financial perspective to improve the likelihood of a successful sale included:

- A Mauritian company where CDC's fund manager decreased the debt/equity ratio from 1.2 to 0.49 through its investment. A stronger balance sheet in combination with a healthy growth in turnover of the company facilitated its listing on the Mauritian stock exchange, and reduced the company's dependence on debt financing.
- One of CDC's fund managers led a successful turnaround initiative for an aviation company in the Pacific islands, assisting management with strategy formulation and implementation to achieve a reversal of previously negative results. The fund manager acted as de facto CFO for the company during this turnaround process, undertook a customer-by-customer study of margins earned and revised budgets with reduced costs. The company became profitable in late 2006. CDC's fund manager envisages a successful exit in the near future.

Portfolio value over 5 years (£m)



Financial performance evaluation results 2008 (%)

Five funds above investment target in terms of net IRR; one within range; six funds below target

	2008 £m	2007 £m
Portfolio at start of year	1,184	1,125
New investments	436	412
Realisations	(245)	(576)
Unrealised gains	(447)	223
Portfolio at end of year	928	1,184

Development highlights in 2008 continued

Economic performance

CDC seeks to assess the wider benefits from the companies supported by its capital to the economies where they operate and to the people working for them. In some of the companies where CDC's capital is invested, CDC's fund managers are large shareholders, and thus a major financial supporter to maintain or create jobs and generate tax revenues. In other companies, CDC's fund managers are smaller shareholders. CDC's interest in the funds where its capital is invested also varies. Direct attribution of employment maintained or created or tax revenues generated to CDC's investments is therefore not appropriate. Nevertheless, as the employment and tax data reported to CDC in 2008 comes from a large sample of CDC's portfolio companies, it is an important indicator of the number of people in poor countries that sustain a livelihood with financial backing from CDC and the amount of tax revenues that benefit local governments from companies where CDC's capital is invested.

Jobs supported by CDC's capital

676,000 people were employed in CDC's 514 portfolio companies that reported employment data in 2008. This represents 75% of the total number of companies where CDC's capital is invested. It is commonly estimated that each worker supports the livelihood of about four family members.[22]

The bulk of the total number of jobs supported by CDC's capital were in Asia, with 546,000 people employed in 281 portfolio companies. This represented a full 80% of all employment numbers reported to CDC, and covered 80% of all of CDC's portfolio companies in Asia.

95,000 of the jobs supported by CDC's capital were in 190 companies in sub-Saharan Africa. For this region, CDC received employment data from 70% of all of its portfolio companies in 2008. CDC, through its fund investments, is a relatively smaller shareholder in Asian companies compared to companies in sub-Saharan Africa. In North Africa, 19 of the companies supported by CDC's capital employ 15,000 people. This represents 70% of all companies in the region in which fund managers have invested CDC's capital. 20,000 people are employed in the 24 portfolio companies in Latin America that reported employment data to CDC in 2008, representing slightly more than half of CDC's portfolio companies in that region.

In terms of sectors, the largest absolute number of jobs supported by CDC's capital was in the consumer goods and services sector, with 211,000 people employed in the 90 companies which reported employment data to CDC in 2008. Industry and materials[23] was the second largest sector by number of people employed, with more than 106,000 jobs supported by CDC's capital in the 101 companies in this sector which reported data. In terms of average number of employees per company, the mining and agribusiness sectors were by far the largest employers, with 65,000 jobs supported by the 21 mining companies with investments from CDC and 67,000 jobs supported by the 23 agribusiness companies where CDC's capital is invested and that reported employment data to CDC in 2008. On average, 3,000 jobs are supported by each of CDC's portfolio companies in mining and agribusiness. CDC considers jobs across all industries to be important for development.

681 portfolio companies

676,000 people employed in the 514 companies that reported data[3]

US$2.2bn in tax revenues generated from the 390 companies that reported data[4]

32% of portfolio companies in SME funds or micro-finance funds*

* By number of portfolio companies or microfinance institutions.

Employment intensive industries, like mining and agribusiness, often provide the only jobs available in remote locations and make important contributions to poverty alleviation. Industries which require higher skilled workers can strengthen capacities through training and on the job learning. Through improved data collection during 2008, CDC was pleased to learn that companies supported by its capital employ a larger number of persons than previously estimated. CDC will continue to monitor employment data during 2009, as the global recession can be expected to continue to take a toll on jobs, and will continue to make its capital available through its fund managers to support businesses that struggle through these difficult times.

Employment by industry sector

Energy & utilities	10,000	28/44
ICT	58,000	42/56
Mining	65,000	21/29
Industry & materials	106,000	101/120
Agribusiness	67,000	23/33
Consumer goods & services	211,000	90/119
Financial services	74,000	112/156
Microfinance	27,000	42/48
Healthcare	42,000	22/26
Infrastructure	14,000	28/42
Cleaner technologies	2,200	5/8

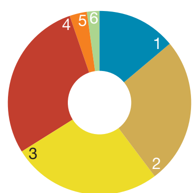
■ Number of companies reporting data
■ Number of total CDC portfolio companies in sector

Taxes paid by industry sector (US$m)

Energy & utilities	375	20/44
ICT	342	38/56
Mining	350	19/29
Industry & materials	244	91/120
Agribusiness	179	19/33
Consumer goods & services	234	84/119
Financial services	280	46/156
Microfinance	25	24/48
Healthcare	83	19/26
Infrastructure	123	25/42
Cleaner technologies	4	5/8

■ Number of companies reporting data
■ Number of total CDC portfolio companies in sector

Employment by region



1 Sub-Saharan Africa **95,000 (90/261)**
2 China **176,000 (77/93)**
3 India **179,000 (118/144)**
4 Other Asia **191,000 (86/111)**
5 Latin America **20,000 (24/45)**
6 North Africa **15,000 (19/27)**

(number of companies reporting data/number of total CDC portfolio companies)

Taxes paid by region (US$m)

1 Sub-Saharan Africa **596 (100/261)**
2 China **514 (70/93)**
3 India **282 (108/144)**
4 Other Asia **440 (78/111)**
5 Latin America **400 (22/45)**
6 North Africa **10 (12/27)**

(number of companies reporting data/number of total CDC portfolio companies)

Tax revenues generated from companies supported by CDC's capital

US$2.2bn in annual taxes was paid by CDC's 390 portfolio companies that reported tax data in 2008. This represented close to 60% of all companies where CDC's capital is invested. The tax data mostly reflected taxes paid in 2007, while in some instances taxes payable for 2008 was reported.

The largest share of tax revenues was paid to governments in Asia, with US$1.2bn in taxes paid by CDC's 256 portfolio companies in the region that reported such data, representing 70% of CDC's Asian portfolio companies. Some US$600m in taxes was paid by CDC's 100 portfolio companies in sub-Saharan Africa that reported tax data, representing almost 40% of CDC's African portfolio companies. US$10m in tax revenues was generated by 12 of CDC's portfolio companies in North Africa that reported tax data, representing 40% of the total number of companies where CDC's capital is invested in that region. Almost US$400m in tax revenues were reported from CDC's 22 portfolio companies in Latin America which reported such data, representing 50% of the total number of companies in the region with investments from CDC.

Through tax revenues generated from companies where CDC's capital is invested, governments in developing countries have a sustainable local source of public finance as opposed to the direct budget support or programme grant finance received from donors. Growing and new businesses are the long term vehicle for developing countries to lift their populations out of poverty.

Evaluation results in 2008

30,000 new jobs created*

146,000 jobs supported

Only 750 jobs lost

21% net increase in jobs*

76% of portfolio companies* showed an increase in jobs

58% of portfolio companies increased EBITDA**

82% of portfolio companies increased turnover***

From the evaluation work in 2008, CDC gained more in-depth information about the economic benefits and, in some cases, losses from the companies where CDC's capital is invested. To evaluate a fund's **economic performance**, CDC assessed whether jobs had been created or lost, the amount of tax revenues generated for local governments, and growth in turnover and profitability in terms of EBITDA[24] from portfolio companies. Special consideration was given to small and medium size enterprises (SMEs) that for reasons of size would have smaller absolute increases to show. Special consideration was also given to funds or investee companies that focused specifically on disadvantaged groups, such as microfinance for the rural poor.

Seven of the funds evaluated were rated as successful in terms of economic performance. Two were rated as excellent and only one was rated as below expectations. The 85 companies evaluated for which employment data was available supported a total of 146,000 jobs. 76% of the 85 companies for which data on employment creation was available showed an increase in jobs over the funds' investment period. This represented 30,000 jobs created in 65 companies. Only seven companies showed a decrease in the number of employees, with the loss of 750 jobs. The net increase in employment in the companies covered by CDC's evaluations was 21%.

For tax data, some companies reported numbers from the last year with information available whilst others supplied information for the entire investment period. Tax data was available from 80% of the companies covered by the evaluations. From the 37 companies that reported tax data only for the last year, US$405m in taxes was generated for local governments. A further US$150m in taxes was paid by the 56 companies that reported tax data for the entire investment period.

82% of the 96 companies covered by the evaluations for which data was available demonstrated growth in turnover during the investment period. The average magnitude of this growth in turnover was US$27m per company.

An impressive 86% of the 97 companies for which data on profitability was available showed positive EBITDA.[24] 58% had seen an increase in profits over the investment period.

* Data from 85 companies
** Data from 97 companies
*** Data from 96 companies

The largest employers

Among CDC's portfolio companies, the largest numbers of employees are all in Asia, representing the following sectors:

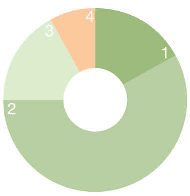
Jobs	Region/ Country	Business sector
44,300	Asia	Mining
43,000	China	Agribusiness
38,500	India	Industry and materials
20,000	China	Healthcare
20,000	India	ICT

The largest tax payers

The largest tax payers supported by CDC's capital are spread over different regions:

Taxes (US$)	Region/ Country	Business sector
310m	Asia	Mining
250m	Latin America	Energy and utilities
160m	China	Agribusiness
120m	Sub-Saharan Africa	ICT
60m	China	ICT

Economic performance evaluation results 2008 (%)



1 Excellent **17%**, 2 funds
2 Successful **58%**, 7 funds
3 Satisfactory **17%**, 2 funds
4 Below expectations **8%**, 1 fund

Development highlights in 2008 continued

ESG performance

In 2008, CDC intensified its work prior to making commitments to new funds to ensure that fund managers have the proper management systems to address environmental, social and governance (ESG) risks and to help portfolio companies realise improvements during their investment duration as stipulated by CDC's new Investment Code. CDC also worked with its fund managers to promote better annual reporting on ESG matters. CDC received a much larger number of ESG reports in 2008 than in prior years although reporting is still not comprehensive. CDC will continue to promote good ESG reporting practices during 2009. This can be a particular challenge for funds where CDC is a small investor among commercial investors.

During 2008, CDC's investment staff and specialist ESG advisor made a number of visits to fund managers and their portfolio companies for the purpose of verifying how high risk assets were being managed from an ESG perspective. CDC concluded that most of its fund managers are managing ESG matters satisfactorily, whilst some of them need to put further efforts into upgrading their ESG management systems. CDC will continue to work with fund managers and their investee companies on ESG matters during 2009. CDC also plans to update its *Toolkit on ESG for Fund Managers* to reflect the new Investment Code and to introduce two new chapters on how to manage climate change risks and opportunities and how businesses can improve upon their practices from the gender perspective.

Evaluation results 2008

71% of portfolio companies had ESG issues at investment

86% of portfolio companies made improvements on ESG practices during the investment period

All of CDC's 12 evaluations concluded that funds were at a satisfactory level or better on **ESG performance**. CDC assessed how fund managers had worked with their portfolio companies to identify ESG risks and issues at the time of investment, and to bring about improved ESG practices during the investment period. One of the evaluations was rated as excellent, the highest category, from the ESG perspective. The fund manager in question had been instrumental in improving ESG practices throughout its portfolio of 19 Indian companies, including several large companies in high risk sectors such as mining and provision of security services, one large scale ship construction company with remotely located workers, and a start up pharmaceutical company, which has grown to become a leading generic supplier for U.S. and European pharmaceutical companies by meeting the highest international standards for drug production.

All seven fund managers covered by CDC's evaluation work were considered to have satisfactory or high quality ESG management systems for their investment activities.

At the time when the evaluations were conducted, the ESG management systems of the portfolio companies covered had been improved to a point where 70% of companies were considered to have high quality ESG management systems. 27% of the portfolio companies were considered to have ESG management systems of satisfactory quality and 3% were still considered to have poor ESG management systems.

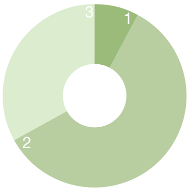
71% of the 99 portfolio companies that were assessed on ESG performance had faced some type of issue from an ESG perspective before the fund managers' investment or during the investment period. Some companies had faced issues in more than one area:

- 31% of the companies needed improvements in environmental management;
- 39% of the companies had experienced issues from the social perspective, mostly in terms of inadequate health and safety standards, but also other matters related to labour and working conditions or other social matters; and
- 39% of the companies had reasons to improve corporate governance.

86% of the 99 portfolio companies that were assessed on ESG performance had demonstrated improvements in ESG practices:

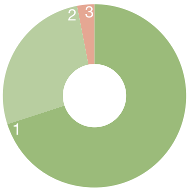
- 33% had demonstrated improvements in environmental management;
- 39% showed improved practices from the social perspective; and
- an impressive 63% had undertaken improvements in corporate governance.

ESG performance evaluation results 2008 (%)



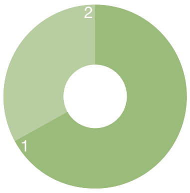
1 Excellent **8%**, 1 fund
2 Successful **59%**, 7 funds
3 Satisfactory **33%**, 4 funds

Ratings of portfolio companies ESG management systems (%)



1 High **70%**
2 Satisfactory **27%**
3 Poor **3%**

Ratings of fund managers ESG management systems (%)



1 High **67%**
2 Satisfactory **33%**

Often, CDC's fund managers were instrumental in initiating and implementing such improvements in portfolio companies' ESG practices.

Examples of ESG issues and improvements covered by CDC's evaluation work are provided below:

Environmental management, environmental products and clean technologies:

- **India:** An Indian producer of automotive lighting in CDC's investment portfolio also produces compact fluorescent lamps, which use up to 90% less energy than regular lamps. The company is looking to promote the use of these less environmentally damaging lamps by securing government contracts for lighting rural villages. The firm is also looking into how it could benefit from carbon credits. Wastage has been substantially reduced. The operations director of this company commented to CDC that less wastage led to stable costs, despite rising raw material prices.

- **Zambia:** A fund manager's due diligence of an industrial company in Zambia included an environmental audit which found environmental deficiencies, including weak management of effluent and surface water. An environmental management plan was drafted to address these shortcomings, which is currently being implemented.

- **India:** An Indian producer of concrete lacked sensitivity to environmental matters prior to the investment by CDC's fund manager. The fund manager worked with company management to transform the plant's environmental practices, including the introduction of sprinklers to reduce dust, planting of trees and grass, catchment and recycling of water, and treatment of water before release.

- **Nigeria:** Whilst one fund manager had not performed an environmental impact assessment at the time of its investment in a Nigerian materials company, the fund manager subsequently assessed the quality of air and waste water, which led to the installation of new extractor fans and new roof ventilation to improve air quality in the factory.

- **Microfinance:** A microfinance fund manager had invested in several financial institutions which in turn financed less environmentally damaging businesses. Examples include:

  – a plastics company which collects plastic waste and recycles it to use as raw material in manufacturing;
  – a chalk powder supplier that makes chalk powder from broken ceramics and glass that it collects and recycles;
  – a compressed natural gas refuelling plant;
  – three small hydro-projects in Armenia;
  – the construction of a waste to energy plant in the Philippines; and
  – replacing coal-fired machines with equipment based on liquefied petroleum gas.

- **Gambia:** A bank in the Gambia uses solar energy cells to power its customer service kiosks throughout the country.

- **Mongolia:** A bank in Mongolia received an award for a project to finance a blind people's labour training factory which recycles cotton bags.

- **India:** An Indian manufacturer of high quality non-ferrous metals sources its products from recycled zinc from different industries, rather than new zinc mining. It has introduced a new process for chemical and physical purification of recovered zinc, which would otherwise most likely have been discarded without recycling. It has an effluent treatment plan for liquid wastes and strictly adheres to regulations for solid effluent.

- **Fiji:** One portfolio company in Fiji capitalised on the environmentally friendly use of senile (i.e. no longer producing) palms. The company started to collect palms that would otherwise have been left to rot and to use these for furniture manufacturing. The collection of such palms, often from remote parts of Fiji's two main islands, represents a vital source of income for woodcutters and a link between informal and formal markets.

Social matters

- **Ghana:** At a Ghanaian biscuit manufacturer, CDC's fund manager discovered during interviews with management that workers were being checked for HIV/AIDS without their knowledge or consent during medical

Development highlights in 2008 continued

screenings provided by the company. The same was discovered by CDC's staff during a meeting with the management of a printing company in Kenya. CDC's fund managers emphasised to the management of these companies that HIV/AIDS screenings have to be voluntary and confidential.

- **Senegal:** For a Senegalese firm dealing in automotives, an explosion of a circuit breaker in the energy equipment provided to a client killed one worker and seriously injured two others in 2008. An external consulting company was contracted to investigate the incident, and determined that although appropriate controls and procedures were in place, supervision had been lax. The report recommended that the firm become more stringent in ensuring that workers would comply with health and safety rules and procedures, and to undertake workshops to increase risk awareness. CDC's fund manager which invested in this company currently monitors the implementation of these improvements.

- **Services and construction sectors:** When performing due diligence prior to investments, several of CDC's fund managers discovered a lack of adherence to national, regional or industry sector minimum wage requirements in companies in the service and construction sectors. For portfolio companies in Asia as well as in sub-Saharan Africa, CDC's fund managers insisted upon increased wages for workers to adhere to minimum wage levels as a condition before making investments.

- **India:** An Indian company in CDC's investment portfolio has won praise from the Confederation of Indian Industry for spreading best practice standards across its suppliers, consisting of 941 companies. This company also has several corporate social responsibility initiatives, including providing equipment for rural schools serving neighbouring villages; and 'adopting' a village where it financed schools, construction of roads and health checkups. Within its own plants, this company provides vocational training and has an awareness programme for HIV/AIDS. It is one of the few companies in India to have SA 8000 (social accountability) certification.

- **Nigeria:** An investee company providing cash transport services across Nigeria suffered from a number of robberies, which led to two fatalities amongst its employees in 2008. In response to these fatalities, the company implemented a convoy system, which is in place today. CDC has pointed out to the fund manager that invested in this company that such a convoy system should have been implemented as this would be an appropriate method for cash transit in the insecure region of Eastern Nigeria.

- **Papua New Guinea:** A plantation in Papua New Guinea, where CDC's capital was invested, created a township for its workforce, provided housing, water and electricity for employees, and supplied medical services and education for the employees' children.

- **MTN Nigeria:** Where CDC is invested through its fund manager African Capital Alliance, has set up a foundation to implement its corporate social responsibility programme which is funded by an annual grant from MTN representing 1% of corporate profits. The MTN Foundation focuses on three key areas: education, economic empowerment and health. It partners with international and local NGOs to implement its projects.

- **India:** For an Indian retail chain, CDC's fund manager had identified multiple social risks at the time of investment and subsequently addressed these matters before selling the business. The social issues identified at the time of investment included some employees being paid below the minimum wage, poor working conditions in a distribution centre and a general lack of focus on labour conditions. CDC's fund manager corrected the wage issue the first week after its investment. The fund manager subsequently increased the emphasis on sound labour practices by recruiting an HR manager and introduced new HR processes, including a compensation structure properly aligned with applicable wage levels, as well as health and safety training. Working conditions in the distribution centre were swiftly improved, with a major upgrade in hygiene and safety standards.

Corporate governance and business integrity

- **India:** One fund manager was instrumental in improving corporate governance at some of the larger companies in India. Although commonly believed that it is small companies that require the most oversight, recent scandals in India and other countries have illustrated otherwise. For its portfolio companies, this fund manager has been active in appointing independent board members (in five instances), assisting the management team in strengthening internal controls and processes (in seven instances), and improving the quality of transparency of financial reporting (in three instances). The fund manager has also been actively involved in assisting its portfolio companies to improve investor relations, with a view towards greater investor transparency and proper communication of financial and corporate information.

- **SMEs and microfinance:** Another fund manager, which invests in SMEs and microfinance institutions (MFIs), also pays considerable attention to corporate governance matters in its due diligence work and throughout the investment period. For a MFI in Uganda, this fund manager worked extensively post-investment on improving corporate controls and risk management systems, financial reporting standards, and the composition of the board and management team. Prior to the investment by CDC's fund manager, this MFI was an unregulated microfinance lender backed by NGOs. CDC's fund manager assisted it to transform itself into a commercially run regulated microfinance provider, which was eventually acquired by a Kenyan bank looking to expand regionally.

- **Kenya:** An essential part of good corporate governance 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 kickback that our international investor just will not accept such practices."

- **China:** A fund manager for CDC in China has realised multiple improvements in corporate governance across its portfolio companies, helping to recruit experienced professionals to strengthen management teams (in two instances), helping to recruit new, fully qualified CFOs (in two instances), establishing a professional finance and accounting team (for one portfolio company), and reviewing internal control systems for ISO:9000 certification (for another portfolio company).

- **India:** Actis, CDC's single largest fund manager, is working with the CEO of the National Stock Exchange (NSE) of India, in which it holds a 1% shareholding, to have the NSE promote ESG issues amongst listed companies in India and to bring together ESG-sensitive investors with listed companies through forums, investor days and panels. The Indian NSE hosts an ESG index consisting of companies committed to high ESG standards, which is the first investable sustainability index in India.

Development highlights in 2008 continued

Serious incidents involving CDC's portfolio companies during 2008

CDC's capital is invested in 681 companies. 75% of these companies reported employment data last year, and we know that they employ more than 676,000 people. Given such large numbers and the inherent risks involved in business operations in the often loosely regulated developing world where CDC's fund managers invest, it is not unexpected to learn that a number of CDC's fund managers have suffered fatalities and other serious incidents in their portfolio companies. CDC requires its fund managers to report without delay any instance involving portfolio companies which result in loss of life, material effect on the environment, or material breach of law and how these instances were dealt with. CDC takes each notification very seriously, and follows up with the relevant fund manager to ensure that appropriate action is taken in a timely manner, and that any underlying systemic reasons for the incidents are corrected by the portfolio company.

During 2008, eight fund managers reported one or more serious incidents to CDC. A total of 41 fatalities were reported, as well as one environmental incident and three cases of alleged fraud. One ongoing fraud allegation was pursued during the year.

Of the fatalities reported to CDC in 2008, 17 arose from Umeme, a power distribution company in Uganda. Umeme suffered from many years of underinvestment in its distribution network before CDC invested in the company in 2005. CDC's fund manager Actis is urgently taking steps to address this serious matter. An investment programme has been agreed and health and safety procedures improved upon. Whilst acknowledging that it will take time to bring the network up to international levels of safety, CDC requires evidence that remedial measures are being taken on a continuous basis and is expecting to see steady improvements over time. The Umeme investment is explained in further detail as a case study in chapter 7, under Energy and utilities.

17 of the remaining 24 fatalities were accidents at work. Examples included three deaths caused by lightning, a death caused by the electric shock of a security guard on duty, a lift accident, a worker killed by electrocution while performing welding during the monsoon season, the death of a taxi driver from speeding, and the death of a worker in the process of hanging advertising billboards. In all cases, CDC's fund managers have taken action to prevent reoccurrence. Five fatalities arose from security incidents; almost all of them attempted robberies. The remaining two deaths were non-work related murder cases, where fund managers have followed investigations closely.

Three incidents of fraud or suspected fraud were uncovered during 2008 in companies where CDC's capital is invested. In one case in Zambia, the firm's board terminated the employment of the CEO. CDC's fund manager is monitoring future developments. Criminal and civil proceedings are underway of a portfolio company in Asia where the founder CEO was utilising a large part of investment proceeds to settle inter-company debts. One fraud incident at a portfolio company in the Pacific islands was resolved by replacing the financial controller. In a case which has been running for some years, dating back to the time before CDC's investment, proceedings are underway with respect to Alexander Forbes' South African subsidiary to investigate allegations of misuse of corporate pension funds.

CDC's fund manager Aureos explicitly set out to address previous adverse environmental issues at Aluminio de Panama in 2008. Aureos is currently overseeing the implementation of a less environmentally damaging powder coating process instead of the previous anodizing process.

Many of CDC's new fund managers have not reported any serious incidents. CDC is continuing to work with all fund managers to promote timely reporting of and response to serious incidents. Even though many portfolio companies have not suffered serious incidents, it is of critical importance that CDC's fund managers engage early on to ensure good practices and preventative measures.

Summary of serious incidents in 2008:

17 work related fatalities

24 non-work related fatalities

1 serious environmental issue

4 instances of alleged fraud

From CDC's new Investment Code:

"CDC requires its fund managers to promptly 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."

Private sector development

Across its investment portfolio, CDC records information to indicate whether its fund managers are contributing to the strengthening of local capital markets and whether they are successful in attracting further investors to developing countries, most importantly additional capital from commercial investors. Through the evaluation work, CDC collects further information about broader reaching private sector development benefits from its investments. Such benefits include other contributions to developing local capital markets; expansion of businesses or investments across several low income countries or poor regions within large countries such as India, China, South Africa and Nigeria; and the wide range of positive effects for consumers from expanded and improved access to goods, services and infrastructure and better and cheaper products and technologies.

Local capacity building for stronger capital markets in poor countries

Among CDC's 52 fund managers that invest directly in companies[25] all but one operate from local offices in emerging markets. Many of CDC's fund managers have several offices, including Actis and Aureos which have 11 and 25 offices, respectively, in emerging market locations. In total, CDC's fund managers have offices in 34 different countries in developing countries, 14 of these are in low income countries. The offices of CDC's fund managers, which are mostly staffed with local investment professionals, make an important contribution to strengthening local investment capacities in countries where capital markets are traditionally weak and underdeveloped.

Many of CDC's fund managers were the very first to undertake private equity investments in their markets, introducing risk capital to allow local businesses to realise their expansion potential. Examples include Aureos, which pioneered SME investments in East Africa in the late 1990s, African Capital Alliance, which managed the first private equity fund in Nigeria, and GroFin and Business Partners, which are still largely alone in providing capital for very small companies throughout Southern and East Africa.

42% of CDC's fund managers are managing private equity funds for the first time. Supporting such first-time fund managers is often considered to be very risky by commercial investors. CDC's willingness to engage with new fund managers is an important contribution to the development of strong investment capacities in the developing countries where these fund managers are located. CDC works closely with its first-time fund managers to ensure that they implement high standards from all perspectives when investing capital from CDC and other investors, including from the environmental, social and governance (ESG) perspectives.

Increasing amounts of capital committed alongside CDC in emerging markets

The amount of third party capital committed alongside CDC has expanded exponentially during the four years since the creation of Actis and Aureos, from US$2.8bn invested alongside CDC in 2005 to a total of US$21.2bn in capital invested alongside CDC at year-end 2008.

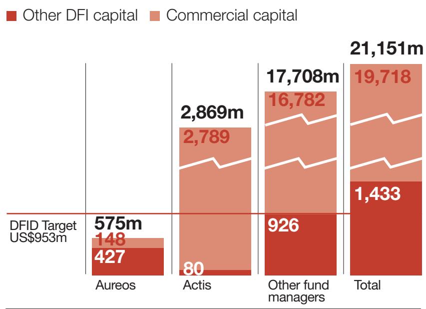
All except one of CDC's 52 private equity fund managers have local offices in 34 developing countries

CDC's seven microfinance fund investors invest in local microfinance institutions

42% are first time fund managers

Actis and Aureos, the two new private equity fund managers for emerging market investing that were spun out of CDC, raised much more third party capital than the target of US$953m set by the Department for International Development (DFID) in 2004. Actis has raised a total of about US$2.9bn, almost entirely from commercial investors. Aureos has raised US$575m of capital from investors other than CDC, with more investments from other development finance institutions (DFIs) than from commercial investors, reflecting the fact that private capital is still reluctant to focus on SME investments in poor country markets. DFI investments in Aureos' funds account for US$427m, while Aureos has raised US$148m from commercial investors.

DFI and commercial third party capital (US$) invested alongside CDC



Development highlights in 2008 continued

Meanwhile, CDC's other 57 fund managers have US$17.7bn in third party capital committed to their funds alongside CDC's investments. Capital from other DFIs accounts for only US$926m of the total. For some of these funds, CDC had an instrumental role in attracting other investors, as demonstrated by CDC's evaluation work in 2008. For other funds, CDC has had an important role in strengthening fund managers' awareness and commitment to responsible investment and business practices from the ESG perspective.

24% of CDC's fund managers have so far been successful in raising successor funds after CDC invested with them, continuing their work to bring increasing amounts of capital to poor country markets and expanding the financing available for businesses in these countries to realise their growth potential.

Evaluation results in 2008

83% of fund managers raised a successor fund

US$1.1bn in successor funds

CDC's evaluation work in 2008 illustrated the multiple ways that companies in poor countries contribute to private sector development. All of the evaluations rated the 12 funds that were assessed as satisfactory or better on **private sector development** contributions. Three funds received the highest rating, excellent.

Local capacity building:

All except one of the fund managers covered by the evaluations had local offices in emerging markets, many of them operating from multiple different hubs in low income countries. Office locations for the fund managers covered by the evaluations included Lagos, Nairobi, Johannesburg, Mauritius, Port Moresby, Karachi, and several offices throughout India and China. The sole exception was a U.S. based microfinance fund investor, although all of the microfinance institutions in which this manager invests have offices in developing countries.

Third party capital:

The amount of capital invested alongside CDC varied greatly between the 12 funds evaluated, as did the amount of capital from development finance institutions (DFIs) as opposed to commercial investors. In total, US$1.7bn in capital was invested alongside CDC in these 12 funds. US$734m of this amount was from commercial investors invested in one large growth capital fund in India. Three other funds had capital from commercial investors in excess of US$100m, two of them investing in India and one of them in China. The African funds covered by the evaluations were both smaller and had more DFI investors than the Asian funds. Other DFIs invested with seven of the 12 funds evaluated, with an aggregate commitment of DFIs other than CDC of US$140m.

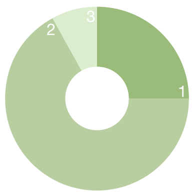
83% of the fund managers had been successful in raising successor funds. Often, such funds were being raised at the time when CDC conducted its evaluations. Evaluation results were used by CDC's investment committee to inform decisions of whether or not to commit further capital to these fund managers.

Examples of some of the broad, private sector development benefits that were identified by CDC's evaluation work in 2008 are reported below. Further examples of the benefits of thriving businesses across all regions and sectors are provided in the subsequent regional and industry sector chapters.

Addressing capital market failures:

- Angola: The poor access to finance for SMEs in Southern Africa outside of South Africa has improved substantially during the last five years. One of the funds included in the evaluations was part of addressing this market failure. A SME investment in Angola in 2002, at the time when the country was just regaining stability after the end of its civil war, can be considered particularly "pioneering".
- South Africa: The same fund invested in Real People, a South African financial institution for previously disadvantaged communities. Real People, assisted by the credit line from CDC's fund manager, helped to bring about a dramatic increase in access to finance for such groups. CDC's fund manager sourced ZAR100m in credit lines for Real People. The company has subsequently been able to increase its access to credit by over ten times. Old Mutual Investment Group, one of the largest investment firms in South Africa, has recently acquired a 25% equity stake in Real People, demonstrating that credit for previously disadvantaged communities can be attractive for trade buyers.

Private sector development evaluation results (%)



1 Excellent **25%**, 3 funds
2 Successful **67%**, 8 funds
3 Satisfactory **8%**, 1 fund

Expansion into low income countries and poor regions:

- Sub-Saharan Africa: Several of CDC's fund managers have contributed to the positive trend towards increasing business activities across different African countries and regional economic integration. One of CDC's fund managers in West Africa was instrumental in helping several of its portfolio companies expand into new countries. For example, the fund manager helped one of its portfolio companies, a Nigerian leasing business, to acquire a company in the same sector in Ghana, thereby establishing the foundation for regional expansion. The fund manager is currently helping the merged company to expand across West Africa. The same fund manager helped two of its Ghanaian portfolio companies expand into Togo and Sierra Leone, respectively. A Nigerian oil and gas drilling tools rental business in this fund manager's investment portfolio has recently opened offices in Uganda and Ghana.

- Indian companies expanding into sub-Saharan Africa: Two large mining companies in the investment portfolio of one of CDC's Indian fund managers have initiated expansion activities into sub-Saharan Africa; in the case of a coal mining company, through ventures into Ethiopia and Tanzania, and, in the case of a zinc processing company, through a zinc sourcing concession in the Democratic Republic of Congo (DRC). The new Ethiopian venture is expected to create 580 local job opportunities. The Congolese operation currently has 150 employees, and will be further developed over the next few years, with subsequent benefits for local employment and tax revenues.

- Sub-Saharan Africa: Several of the African financial institutions where CDC's capital is invested have started to build a regional presence. A Kenyan bank has expanded into Uganda, Rwanda and is looking to set up operations in southern Sudan and DRC. A Kenyan microfinance institution has expanded into southern Sudan.

Expanding availability of goods, services and infrastructure – at lower cost and better quality:

- Sub-Saharan Africa: A rapidly expanding retail chain among CDC's investee companies in Kenya has started to open stores also in neighbouring Tanzania, playing an important role in bringing professional retailing to these previously underserved East African countries. The company's new stores benefit the local consumers in terms of increased availability of a range of products at lower price, thanks to the retail chain's economies of scale. CDC's fund managers' investments in retail malls in Ghana and Nigeria have similarly expanded access and choice for consumers in West Africa.

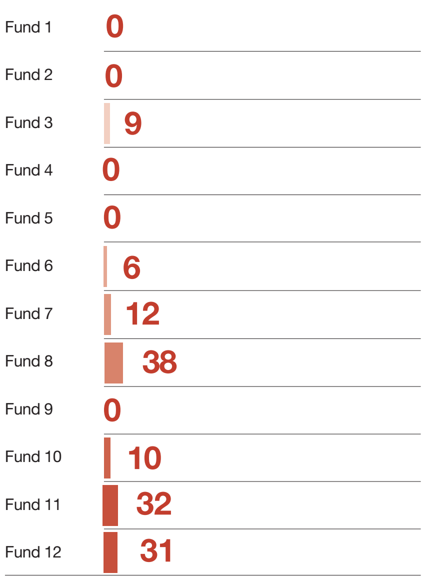
- Nigeria: Two Nigerian transportation companies with investments from CDC's fund managers have helped to connect different regions in Nigeria with its neighbouring countries and international capitals. One of these companies operates bus transport services throughout Nigeria and West Africa. The other company is Virgin Nigeria, which now flies to eight Nigerian cities as well as to seven capitals in West and Central Africa. Previously, air transport was severely underdeveloped within the region, forcing travellers from one country in West Africa to another to fly through London or Paris.

- India: In 2005, the Indian government announced a new FM radio policy which reduced the radio licensing fee and issued 337 new licences for 91 cities. Today, the nascent radio industry accounts for 3.3% of annual media spending in India which is about US$5.5bn. The radio industry is booming, with an annual growth rate of 39% compared to overall annual media expansion of 19%. One of CDC's portfolio companies, Radio City, is one of the radio companies that benefited from the Indian media deregulation. It currently provides 10 million daily Indian radio listeners with a diverse and high quality programme offering.

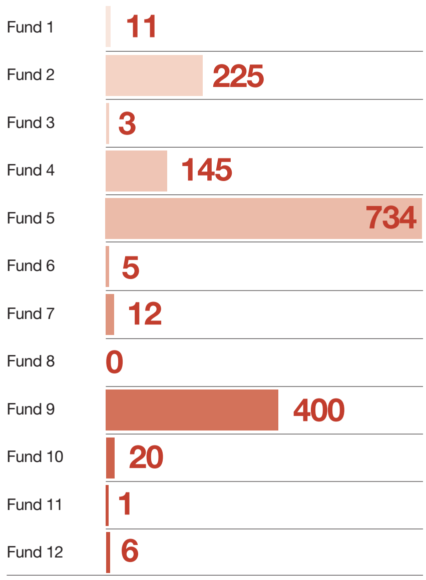
Local production and ownership of economic resources:

- Mauritius: An investee company of one of CDC's fund managers in Mauritius established and built the first rice milling plant in the country for converting brown rice into white. Previously, all white rice had to be imported. This company has also made important financial contributions to a fund set up by the Mauritian government for the development of local infrastructure and the preservation of the local environment.

Third party capital raised per fund evaluated (DFI excluding CDC, US$m)



Third party capital raised per fund evaluated (non DFI commercial investors, US$m)



Development highlights in 2008 continued

- **Nigeria:** Investments in Nigerian firms by one of CDC's fund managers have strengthened the trend of local firms playing a bigger role in the Nigerian oil and gas industry. The indigenisation of the Nigerian oil and gas industry, which historically has been dominated by large, international companies, is a positive trend for private sector development in Nigeria.

Improved standards and regulations:

- **India:** India's police force is thinly stretched to protect its population, with only 1.5 police agents for every 1,000 citizens. Consequently, India has the largest number of private security services companies in the world, which is expected to generate one million new jobs annually. Unless properly trained in community safety and the use of weapons and force, security guards can pose a major threat to the local community. Such training was previously not mandatory in India. Neither were mental health checks and checks of prior criminal records. One of CDC's fund managers has invested in a rapidly expanding Indian security service provider, which has brought international training standards to its Indian security guards. This company has subsequently successfully lobbied the Indian government to introduce new legislation that stipulates basic regulations for the industry. The company as a result enlisted a large number of multinational customers and is adding thousands of people to its payroll every month.

MTN Nigeria:

Driving the Nigerian mobile telephony revolution

When CDC invested in MTN Nigeria through African Capital Alliance (ACA) in 2001, the company was a start-up, and the Nigerian mobile telephony market was underdeveloped with a total telephone penetration rate of less than 0.5%. At this time, there were only about 400,000 mobile phone subscribers in Nigeria. During ACA's investment in MTN, the number of mobile phone subscribers in Nigeria exploded to an estimated 56 million users today. MTN accounts for 20 million of these new subscribers.

Between 2001 and 2008, MTN Nigeria invested US$1.8bn in mobile telephony infrastructure throughout Nigeria. Nigeria's teledensity (the number of telephone lines per 100 people) increased from 0.7 to 41[26] during this time. MTN Nigeria now provides mobile telephony services to 223 Nigerian cities and towns as well as to more than 10,000 villages and communities across the country, with a 40% total market share.

MTN directly employs 1,900 people, and has created an estimated 20,000 indirect jobs across support sectors, including communication towers maintenance and the sale of handsets and accessories.

The telecommunications sector in Nigeria continues to grow at 15 to 20% per year. With a rapidly expanding population currently estimated at 148 million, Nigeria still has vast potential for continued growth in mobile telephony and associated services from its current mobile penetration rate of about 35%, with corresponding benefits for people that for the first time can access all of the new opportunities associated with modern mobile communication.

CITIC Capital Partners China Fund:

Privatisation of state owned enterprises

State owned enterprises (SOEs) still play a significant role in the Chinese economy. Such companies are usually inefficient, overstaffed and overcapitalised, and thereby act as a brake on sustainable economic growth and competitive private sector development.

Privatisation and restructuring of SOEs in China and elsewhere lead to more efficient operations and better allocation of capital within and between businesses. Privatised companies are better equipped to compete in global markets, and through increased international and domestic sales, expand their businesses, number of employees and tax revenues for local governments. Sometimes, jobs have to be shed initially during a privatisation for a company to become competitive and thus survive and expand in the medium to long term. Overall, privatisation of SOEs creates a more competitive business environment, a key aspect of private sector development.

CITIC Capital Partners China Fund is a US$425m fund raised by CITIC Group, a large Chinese financial services conglomerate, which was set up in 1979 by the Chinese government to facilitate foreign direct investment. The fund's investment focus is the privatisation of SOEs. CDC invested with CITIC in 2006.

One investment in the CITIC portfolio, Harbin Pharmaceuticals, is a manufacturer of antibiotics, over-the-counter medicine and traditional Chinese medicines. Since CITIC's investment in 2006, Harbin has initiated and completed far reaching operational improvements and rapidly expanded its sales. Over the last two years, Harbin has grown from being the fifth largest manufacturer of pharmaceuticals in China to the market leader.

Regional reviews

Chapter 6

Sub-Saharan Africa is and has always been the most important investment destination for CDC. This is the region that lags behind the rest of the world in reducing poverty and which suffers disproportionately from lack of foreign direct investments. Asia is another important investment region for CDC. India, with the largest number of poor people in the region, dominates CDC's Asian investment portfolio.

Going forward, CDC will invest half of its capital in sub-Saharan Africa and 75% in low income countries. This means an ever-increasing focus on the poorest countries in Africa, India and other low income countries in South Asia.

Chapter 6 – Sub-Saharan Africa

Sub-Saharan Africa, home to a larger proportion of poor people than any other region of the world, has made steady progress over the last decade and achieved a sustained average economic growth rate of over 5%. Most economists forecast a higher average growth rate for sub-Saharan Africa than for most economies in Europe and the Americas for 2009, notwithstanding the global financial crisis.[27]

£466m CDC portfolio value

261 portfolio companies in 28 countries

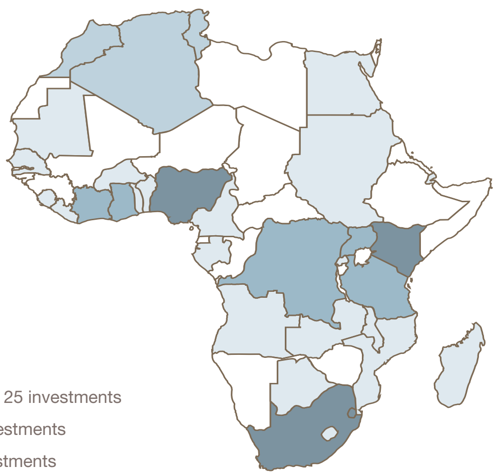
£160m invested by CDC in 2008

95,000 people employed in the 190 portfolio companies which reported data in 2008[28]

US$596m in local taxes were paid by the 100 portfolio companies which reported data in 2008[29]

18 of CDC's fund managers invest in sub-Saharan Africa

CDC's fund managers have investments in 28 countries in sub-Saharan Africa



More than 25 investments
15–25 investments
6–15 investments
1–5 investments

ANGOLA
BENIN
BOTSWANA
BURKINA FASO
CAMEROUN
CONGO (DEMOCRATIC REPUBLIC)
CÔTE D'IVOIRE
DJIBOUTI
GABON
GAMBIA
GHANA
KENYA
LIBERIA
MADAGASCAR
MALAWI
MAURITANIA
MOZAMBIQUE
NIGERIA
RWANDA
SENEGAL
SIERRA LEONE
SOUTH AFRICA
SUDAN
SWAZILAND
TANZANIA
TOGO
UGANDA
ZAMBIA

Development progress and challenges ahead

Sub-Saharan Africa, home to a larger proportion of poor people than any other region of the world, has made steady progress over the last decade and achieved a sustained average economic growth rate of over 5%. Most economists forecast a higher average growth rate for sub-Saharan Africa than for most economies in Europe and the Americas for 2009, notwithstanding the global financial crisis.[27]

The relatively positive growth prospects for sub-Saharan Africa as a region come against a history of economic stagnation, with chronically high unemployment and persistently high poverty rates. 50% of the population in sub-Saharan Africa live below the poverty line,[15] representing more than 400 million people. This makes up about 30% of all poor people in the world. In accordance with current projections, sub-Saharan Africa is lagging behind other regions in reducing the proportion of poor people as a share of the total population. By current World Bank projections, 37% of the continent's population will still be poor in 2015. This leaves sub-Saharan Africa way behind all other regions in achieving the Millennium Development Goal to halve, by 2015, the proportion of people living on less than US$1 per day.

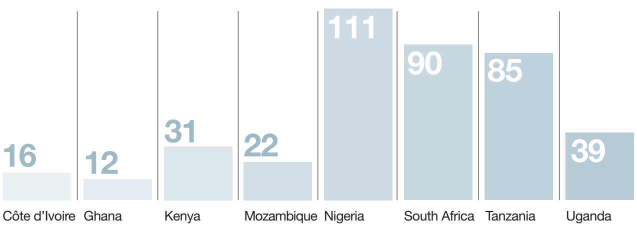
Around 40% of the people in sub-Saharan Africa are not employed in the formal labour markets.[30] Many survive on occasional or seasonal labour, small sales activities or subsistence farming. The proportion of people employed in sub-Saharan Africa has only increased slightly over the last 15 years. Employment considered to be vulnerable, in terms of workers that are less likely to have access to social security, income protection and effective coverage under labour legislation – and thus more likely to lack critical elements of decent work according to the International Labour Organisation (ILO), represents a 75% share of all workers in sub-Saharan Africa. For women, the figures for employment as well as for vulnerable employment are substantially worse than for men.[30] Labour productivity in sub-Saharan Africa is still the lowest in the world, although some progress has been made during the last decade. Without the creation of further jobs from new and expanding businesses, Africans will not be able to raise their living standards and lift themselves and their families out of poverty.

The global recession is taking its toll on African businesses, although until now less severely than in Europe, the Americas and Asia. The global economic downturn has brought a 15% decline in South African exports. Countries in sub-Saharan Africa that depend heavily on commodity exports can expect to continue to suffer during 2009, and possibly also over the next two years, depending on the severity of the current recession.

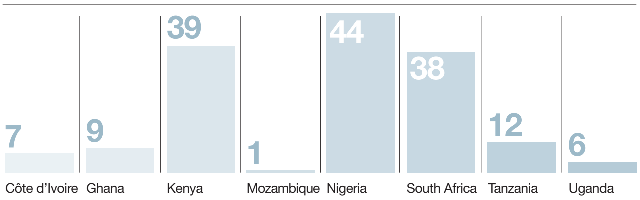
The countries in sub-Saharan Africa that currently experience locally driven growth in sales and revenues are less vulnerable to the current global economic crisis. Diversification into manufacturing and other higher value-add business sectors, as well as agricultural production for local consumption, can partly drive sustained economic growth across Africa. South Africa, while a major exporter of minerals, also has a widely diversified economy and a strong manufacturing base. South African imports and investments are major factors behind the positive economic developments for other countries in southern Africa. Nigeria plays a similar role for West Africa, and Kenya partly so for East Africa. A recent survey by the professional services firm PricewaterhouseCoopers (PwC) shows that business leaders in East Africa were the most optimistic in the world about growth possibilities, with more than half predicting increased revenues in 2009. The PwC survey found that 51% of East African corporate leaders were confident about revenue growth for 2009. 58% predicted increases in sales over the next three years. Most CEOs in East Africa covered by this study regard maximising returns from existing markets as their main opportunity for growth, sending an optimistic message about overall growth prospects for East Africa. Only 11% of the business leaders interviewed expected to have to cut staff levels. Rather, concerns about political turbulence exceeded worries about the global recession among corporate leaders in East Africa.

A number of major issues still impede economic growth prospects for sub-Saharan Africa. The region as a whole is rated as the most difficult in the world in terms of ease of doing business by the World Bank and the IFC.[31] Corruption is still a major factor in day-to-day business dealings in many countries. The region, especially Southern Africa, is ravaged by the HIV/AIDS pandemic, with infection rates between 15 and 20% for some countries, including Zambia, Namibia and South Africa. Malaria is also a major killer of Africans, with more deaths still caused

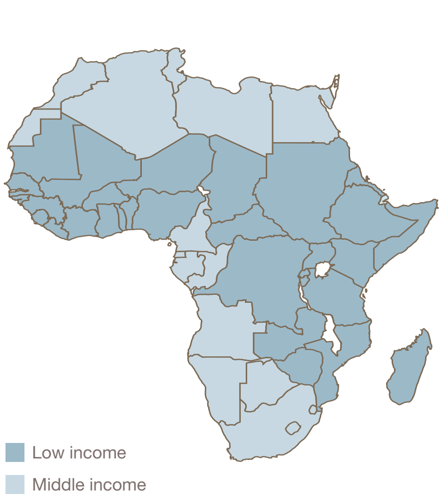
Largest investment destinations by value (£m)



Largest investment destinations by number of portfolio companies



CDC's investment universe in Africa



Sub-Saharan Africa continued

by malaria-carrying mosquitoes than the HIV virus. Some countries, including Sudan, Zimbabwe and the Democratic Republic of Congo (DRC) suffer from conflicts and lack of representative democracy. Other impediments for businesses in sub-Saharan Africa include lack of access to financial services and poor infrastructure. With about one seventh of the world's population, Africa generates only about 4% of the world's electricity, three quarters of which is used in South Africa and northern Africa. Most businesses are forced to rely on costly generators rather than regular access to power. In Kenya, 70% of businesses operate their own power generators. Energy as a share of the total cost of doing business in many countries, including Tanzania, is as high as 10%. Small and medium size enterprises (SMEs) are particularly affected, as many cannot afford the significant costs involved.[32]

CDC's investments in sub-Saharan Africa

Sub-Saharan Africa is and has always been the key investment market for CDC. By the end of 2008, CDC had a total portfolio value of £466m invested in 261 companies across the region. Investments in sub-Saharan Africa make up half of CDC's total portfolio value. US$1.8bn in new capital from CDC was committed to private equity funds during the last five years for investments in sub-Saharan Africa. CDC is now the single largest private equity investor in sub-Saharan Africa, accounting for 14% of the total funds raised for investments in the region between 2003 and 2007, according to CDC's estimates.

95,000 people are employed in CDC's 190 portfolio companies in sub-Saharan Africa which reported employment numbers in 2008, representing 70% of CDC's total portfolio companies in the region.[28] For each person employed, the livelihoods of an estimated additional four persons are assured.[22] Through its investments in commercially strong companies, CDC is thus an important contributor to economic growth and poverty alleviation in sub-Saharan Africa.

US$600m in taxes was paid to local governments throughout sub-Saharan Africa by CDC's 100 portfolio companies which reported tax data in 2008, representing about 40% of CDC's total portfolio in the region.[29] CDC's portfolio companies are accordingly major contributors to increased government revenues in sub-Saharan Africa.

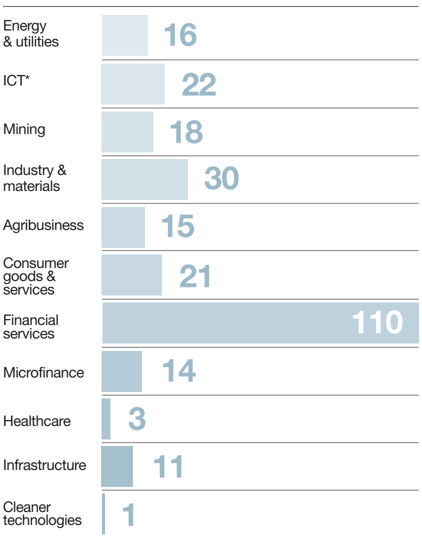
By the end of 2008, CDC was invested with 18 different fund managers through 42 different funds in sub-Saharan Africa. Seven of these fund managers were newly formed investment groups. CDC's support of first-time fund managers in sub-Saharan Africa represents a major investment in local capacity building, which contributes to strengthen the local capital markets. 15 of these fund managers have local offices in 13 different countries, including Madagascar, Côte d'Ivoire, Senegal and Zambia in addition to the traditional African investment hubs Lagos, Johannesburg and Nairobi.

CDC's portfolio companies span across the African continent, from Togo to Madagascar, Djibouti to Cameroun, and Malawi to Gambia. The single largest investment destination for CDC's capital in sub-Saharan Africa is Nigeria, which, with £111m invested in 44 different companies, represents 12% of CDC's total investment portfolio. South Africa and Tanzania follow as close second and third investment markets in sub-Saharan Africa for CDC, with £90m invested in 38 different companies and £85m invested in 12 portfolio companies, respectively. There are 39 companies in Kenya which are supported by CDC's capital. 214 of CDC's 261 portfolio companies in sub-Saharan Africa are located in low-income countries, representing 82% of CDC's portfolio value in the region.

"Don't look at Africa as a homogenous continent! Our region is made up of 53 very different countries, some difficult, some easier. Capacity and infrastructure differ vastly and gaps should be bridged with broad programmes of social and corporate entrepreneurship."

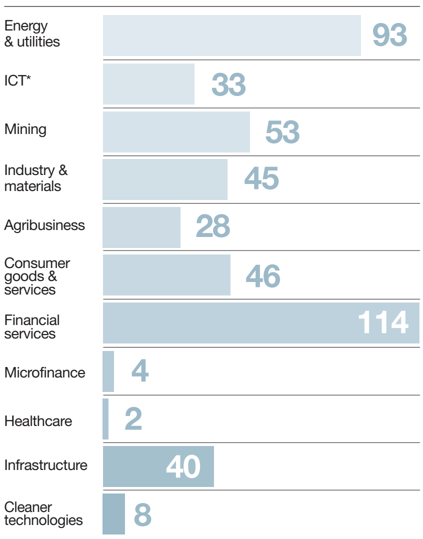
Graça Machel, former Minister of Education and first lady of Mozambique, speaking at a conference organised by IBLF and GAVI in London on 30 March 2008.

Portfolio companies by sector (number of companies)

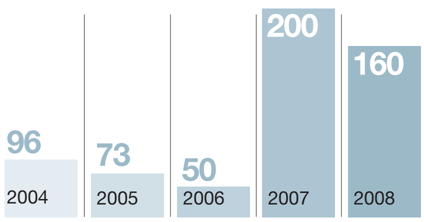


* Information and communication technologies

Investment value by sector (£m)



New investments (£m)



CDC's portfolio in sub-Saharan Africa includes companies of all different sizes, which are active in all sectors of the economy. Financial services represent the single largest share of CDC's investment portfolio, with investments in 110 companies and a total investment value of £114m. 16 energy and utility companies represent the second largest sector investment for CDC in sub-Saharan Africa, with a combined portfolio value of £93m. In terms of number of companies supported by CDC's capital, the second largest sector after financial services is industrials and materials (excluding mining), with £45m invested in 30 companies, followed by information and communication technology (ICT), with £33m invested in 22 companies, and consumer goods and services, with £46m invested in 21 companies.

A number of CDC's fund managers in sub-Saharan Africa focus on SME and microfinance investments. Aureos pioneered private equity investments in East, West and Southern Africa through three different regional funds. GroFin and Business Partners focus on providing finance to help even smaller businesses expand their activities.

In accordance with CDC's new investment policy for 2009 to 2013, CDC will invest at least 50% of its capital in sub-Saharan Africa.

As one of the leading investors to support private sector development in sub-Saharan Africa over the last 60 years, CDC has acted as a catalyst for private sector development in a number of ways.

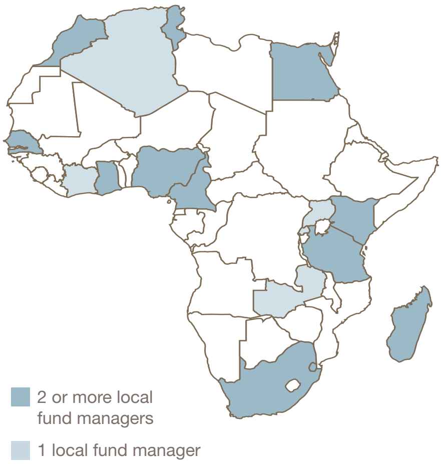
- CDC was an early investor in Celtel, the pan-African telecommunications company that **pioneered the use of mobile telephones across Africa.** CDC, through its fund manager ACA, is also an investor in MTN Nigeria, another major force behind the African mobile phone revolution which started its rapid expansion across the sub-continent by providing access to mobile telephony services for 20 million new subscribers in Nigeria. MTN and Celtel are now expanding across markets that still have very low mobile phone penetration, such as the DRC and Cameroun.

- CDC has invested in numerous **microfinance institutions**, helping the poorest of the poor gain access to financial services which allow them to finance small business ventures and thus help themselves and their families out of poverty. CDC's fund managers have also invested in financial institutions covering the entire spectrum from microfinance to large business banking services. Equity Bank of Kenya, now one of the largest banks in East Africa, which is rapidly expanding its reach into Uganda, Rwanda and Southern Sudan, is an example of such a successful African bank. Through its investment in GroFin, the first pan-African fund to provide **access to finance for small companies** needing up to US$1m of risk capital, CDC supports a large number of small businesses that otherwise would have had great difficulties accessing finance through traditional banking channels in sub-Saharan Africa.

- **Infrastructure investments, particularly in power and telecommunication installations**, continue to be a high priority for CDC. In 2007, CDC's fund manager Actis established a new US$750m infrastructure fund for emerging markets, which includes several of CDC's sizeable energy assets in sub-Saharan Africa. CDC's portfolio companies include some of the major **electricity generation and distribution companies** in sub-Saharan Africa, such as Songas in Tanzania, Umeme in Uganda, Azito in Côte d'Ivoire, and Tsavo in Kenya.

Companies from other emerging markets are moving operations and investments into sub-Saharan Africa. The Indian government has publicly stated that it expects trade between Africa and India to double by 2014. Some of CDC's portfolio companies in India are spearheading this exciting trend. Two successful mining companies from CDC's Indian portfolio are currently expanding into Ethiopia and Tanzania, as well as into the DRC. As companies from other emerging markets expand into sub-Saharan Africa, CDC can help them ensure that their operations continue to adhere to international good practice standards to protect the environment, safeguard labour and working conditions, and ensure sound health and safety standards.

CDC's 18 fund managers have offices in 13 countries in sub-Saharan Africa



Sub-Saharan Africa continued

Largest CDC investments in Africa[5]

Songas, Tanzania[33]
Energy & utilities
£70m

DFCU, Uganda[34]
Diversified financial services
£37m

Empower, South Africa[35]
Energy & utilities
£32m

Diamond Bank, Nigeria[36]
Financials, commercial banks
£32m

"Given the concrete opportunities that exist between our two regions, India-Africa trade could easily double to US$70bn over the next five years."

Pranab Mulcherjee, former External Affairs Minister, currently Home Minister of India, as quoted in African Business, May 2009.

CDC's 2008 evaluation results for investments in sub-Saharan Africa

54 portfolio companies

5 funds

2 fund managers

In 2008, CDC conducted evaluations of five of its fund investments in sub-Saharan Africa. Two of these evaluations were final, conducted at the end of the funds' duration. Three evaluations were conducted at midpoint, half way through the funds' investment duration. The evaluation work included reviews of the 54 companies that these funds had invested in as well as the practices of the two fund managers that managed these five funds from offices across sub-Saharan Africa, including staff in Lagos, Nairobi, Johannesburg and Lusaka.

The results from the five evaluations conducted in sub-Saharan Africa were promising. Four of the funds were rated as overall successful in terms of **development outcome**, and only one fund was rated as below expectations. Two funds received the highest rating, excellent, **on economic performance**. Two funds received the top rating in terms of their portfolio companies' contributions to **private sector development**. One of these funds was an important financial backer of the Nigerian mobile phone revolution. The other fund that received the excellent rating on **private sector development** focused on SME investments in a range of different sectors, with initially small companies successfully expanding across East Africa, bringing the benefits of increased access to financial services, retail, safe malaria drugs and high quality locally produced steel from recycled scrap metal to people in Kenya, Tanzania, Rwanda, Uganda and, for one of the microfinance investments, to the poor in Southern Sudan. Both of the fund managers covered by the evaluations pioneered private equity investment in sub-Saharan Africa. Both have local offices run by local staff. All of the funds evaluated had positive net IRR, and only one fund was rated as unsatisfactory on **financial performance**.

Performance from the **environmental, social and governance (ESG) perspective** was strong. All funds evaluated achieved a satisfactory or successful performance rating. 33% of the portfolio companies covered by the evaluations had improvements undertaken or underway in terms of how they manage(d) environmental matters. Improvements included, for example, new technologies to reduce pollution, improved waste management, and measures to reduce electricity consumption. 46% of the companies covered by the evaluations had measures undertaken or underway to improve labour and working conditions, health and safety standards, and/or had made community development donations from corporate profits. Examples included a partnership between an East African retail chain and a breast cancer awareness NGO, a range of new measures to improve health and safety standards

Summary of CDC's Evaluation Ratings in 2008 for 5 sub-Saharan Africa funds

	Excellent	Successful	Satisfactory	Below expectations	Unsatisfactory	Poor	% satisfactory or better
Development outcome	0	4	0	1	0	0	80%
Financial performance	1	2	1	0	1	0	80%
Economic performance	2	2	0	1	0	0	80%
ESG performance	0	3	2	0	0	0	100%
Private sector development	2	2	1	0	0	0	100%
CDC effectiveness	0	2	3	0	0	0	100%
Added value	0	0	5	0	0	0	100%
Catalytic	2	2	0	1	0	0	80%

across different industries, and the introduction of corporate HIV/AIDS policies and programs for workers and their families in multiple portfolio companies. 43% of the portfolio companies covered by the evaluations had seen improvements in corporate governance and/or business integrity standards during the funds' investment period.

35% of all companies covered by the evaluations had insufficient environmental standards at the time of the fund managers' investment, or had experienced some type of environmental issues during the funds' investment period. From the social perspective, this was the case for 49% of all portfolio companies. These instances most commonly involved inadequate health and safety standards, but also included e.g., instances of compulsory and non-confidential HIV tests of workers and below-industry standard wages at the time of investment. 47% of all portfolio companies included in the evaluations needed improvements from the corporate governance perspective at the time of investment. CDC is satisfied that the fund managers and their portfolio companies have dealt with these issues in a satisfactory manner, or are in the process of doing so.

Key statistics from 2008 evaluations in sub-Saharan Africa

Financial Performance

3 funds above investment target in terms of net IRR, **1** within range, **1** below.

Economic Performance[37]

83% of portfolio companies showed employment growth with **8,600** new jobs created.

Only 11% of portfolio companies decreased their number of workers, with **360** jobs lost.

85% of the portfolio companies experienced growth in turnover. Only **13%** saw a decrease in turnover.

70% of portfolio companies demonstrated growth in profitability as measured by EBITDA. Only 26% reported a decrease in profits by the same measure.

ESG Performance

One fund manager, which manages four of the funds evaluated, was rated highly in terms of its ESG management systems. The ESG management system of the other fund manager was rated as satisfactory.

For the **45** portfolio companies that received a rating of their ESG management systems by its fund managers and CDC:

- **51%** were rated as high
- **42%** were rated as satisfactory
- **7%** were rated as poor

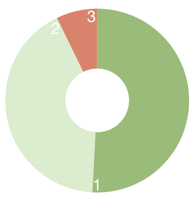
Private Sector Development

US$148m in third party capital was raised by the 5 funds evaluated. CDC contributed a total of **US$45m** to these funds, **23%** of the total capital.

16% of the third party capital invested in these 5 funds was from commercial investors, i.e., not from development finance institutions (DFIs).

All fund managers successfully raised larger successor funds.

Quality of ESG management systems of portfolio companies from evaluations (%)



1 High **51%**
2 Satisfactory **42%**
3 Poor **7%**

Sub-Saharan Africa continued

Compagnie Hévéicole de Cavally, Côte d'Ivoire

Job creation through sustainable forestry in a post-conflict zone

A combination of the development of cocoa production for export, close ties to France, and significant foreign investment made Côte d'Ivoire one of the most prosperous states in West Africa during the 1960s and 1970s. Since then, steep commodity price fluctuations and long periods of political turmoil and civil war have significantly destabilised the economy and reduced foreign investment. Today, 37% of the 20 million population lives below the poverty line.

In 1996, through its investment in Compagnie Hévéicole de Cavally, CDC acquired 2,000 hectares of rubber plantation located in the Moyen Cavally region of western Côte d'Ivoire. At the time, CDC was still a direct investor. CDC's investment enabled Compagnie Hévéicole de Cavally to build a modern rubber processing factory. CDC was one of few foreign investors that remained active in Côte d'Ivoire following the coup d'états in 1999 and 2002, and the subsequent civil war. CDC's investment has been managed by Actis since 2004.

In 2006, Compagnie Hévéicole de Cavally produced 14,000 tonnes of rubber for export to customers such as Michelin and Goodyear, generating a total of €20m in export revenues, which provide much needed hard currency for the Ivorian economy.

Compagnie Hévéicole de Cavally is the only significant source of jobs and income in a remote rural Ivorian location within a country suffering from high levels of unemployment. The company employs 1,020 permanent staff and over 300 contractors. These jobs have been important for stabilising the surrounding communities and aiding rehabilitation of ex-combatants from the civil war period.

Compagnie Hévéicole de Cavally operates a smallholder programme. This scheme provides local people with planting material, training and finance to establish their own plantations from which "cuplump" (raw rubber) is bought at market prices for processing at the company's factory. This programme boosts economic activity and raises skill levels in the local communities. As a result, there are about 600 smallholders involved in rubber production in the Moyen Cavally region. Their production contributes around US$7m to the local economy.

During CDC's ownership, Compagnie Hévéicole de Cavally built two primary schools for the local community, paid the salaries of school staff, and provided an adult literacy programme for villagers.

Côte d'Ivoire, like other sub-Saharan nations, suffers from high HIV infection rates, with over 4% of the population reported to be HIV positive. Compagnie Hévéicole de Cavally supports community HIV/AIDS awareness initiatives, and has assisted in the distribution of free condoms to the local community.

With the help of CDC's fund manager Actis, management at Compagnie Hévéicole de Cavally has been able to access appropriate agricultural, technical and commercial advice and assistance, developing an economically viable and sustainable business.

Despite the long periods of instability experienced in Côte d'Ivoire throughout CDC's 11 year investment period, Compagnie Hévéicole de Cavally developed one of the most productive rubber plantations in West Africa producing a premium export product. The plantation was sold in 2007 to a well-established tropical plantation business.

Key data[1]

Investment:[2] US$29m
Investment period: 1996-2007
Investment sold: 2007
Sector: Forestry
Fund manager: Actis, Africa Agribusiness
Employment: 1,020
Employment growth:[3] 40%
Turnover: €19m
Turnover growth:[3] 80%
EBITDA: €10m
EBITDA growth:[3] 164%
Taxes paid: €0.75m

Footnotes for key data
1 The data is from 2006, except for when stated otherwise.
2 US$29m invested by Actis. CDC's investment in the Africa Agribusiness Fund is US$93m; total fund size is US$93m.
3 2005-2006.

Golden Lay Limited, Zambia

Employment opportunities and livelihood for small-scale traders with focus on food safety and employee health

Zambia is one the poorest countries in sub-Saharan Africa. It has a population of 12 million, more than two thirds of whom live below the poverty line. Despite recent efforts to diversify the economy, Zambia remains heavily dependent on copper, which accounts for 80% of export revenues. In rural areas particularly, there are few employment opportunities outside of mining. Recent falls in international copper prices have resulted in increasing levels of economic hardship. Many copper mines have reduced production rates or ceased their operations, resulting in heavy job losses in the country. Zambia also suffers from one of the highest HIV/AIDS prevalence rates in sub-Saharan Africa, with 15% of the adult population infected. Many households lack essential food and access to medicine because of extreme poverty.

Golden Lay is the largest table egg producer in Zambia's copper belt, accounting for 15% of the total Zambian market. Golden Lay sells eggs from its farm through hundreds of small-scale traders who buy eggs for onward sale at a small mark-up and thereby earn their livelihood.

Since the investment in Golden Lay by CDC's fund manager Aureos, production capacity has increased through the installation of new laying houses. New staff houses have also been built, providing a third of all employees and their families with good quality on-site housing. Sanitation and the supply of running water at staff houses has been improved, with the replacement of water pumps. There are plans to electrify the workers' compound to further improve living conditions.

In developed markets, spent hens are either processed into pet food, incinerated, or buried in dump sites at the end of their egg laying life. Although Zambia has no specific regulations governing the disposal of chicken waste, Golden Lay has established its own high quality system.

At Golden Lay, old but healthy hens are sold to the local community as a source of meat protein at low prices. Smallholders buy the spent hens for onward sale in much the same way they buy and sell eggs. Otherwise, meat in Zambia is too costly for most households.

Dead birds at Golden Lay are disposed of in mortality pits. These pits are located away from the water pumps and lay houses, reducing the risk of contamination to water supplies and the exposure of livestock to disease.

With assistance from Aureos, grant funding from the European Investment Bank (EIB) was secured for the development of an HIV/AIDS awareness and management programme at Golden Lay. Through this programme, staff and their immediate families are educated about the disease, provided with access to voluntary testing, anti-retroviral drugs and vital nutritional supplements. This funding has also delivered improvements to a local clinic that caters to the broader community. The clinic is financially supported by Golden Lay and other farmers in the area. It is estimated that the HIV/AIDS programme could reduce Golden Lay healthcare costs by as much as 60% through HIV prevention and retention of infected staff. The company plans to roll out the programme to the wider community of around 18,000 people.

Key data[1]

Investment:[2] US$5m
Investment period: 2006-present
Sector: Agribusiness
Fund manager: Aureos
Employment: 120
Employment growth:[3] 18
Turnover: US$7.2m
Turnover growth:[3] US$1.5m
EBITDA: US$1.2m
EBITDA growth:[3] –US$0.3m

Footnotes for key data
1 From year-end 2008, except for when stated otherwise.
2 US$5m invested by Aureos, CDC investment in Aureos Southern Africa Fund is $13m; total fund size is US$50m.
3 2007-2008.

Asia

Since experiencing its home-grown financial crisis in 1998, most of Asia has enjoyed ten years of rapid economic growth and declining poverty, driven by an expanding private sector. The current global recession, however, is taking its toll.

£363m CDC portfolio value

348 portfolio companies in 28 countries

£230m invested by CDC in 2008

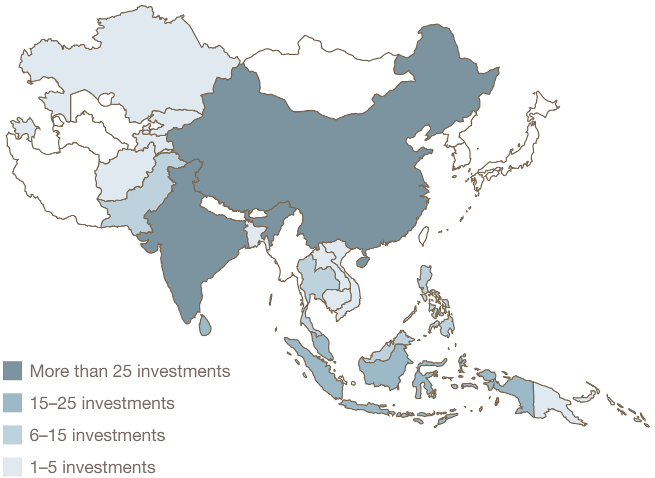
India followed by China dominates CDC's investment portfolio in Asia

546,000 people employed in the 281 portfolio companies which reported data in 2008[38]

US$1.2bn in local taxes paid by the 256 portfolio companies which reported data in 2008[39]

29 of CDC's fund managers invest in Asia

CDC's fund managers have investments in 28 countries in Asia



AFGHANISTAN
ARMENIA
AZERBAIJAN
BANGLADESH
BELARUS
CAMBODIA
CHINA
FIJI
INDIA
INDONESIA
KAZAKHSTAN
KYRGYZSTAN
LAOS
MALAYSIA
PAKISTAN
PAPUA NEW GUINEA
PHILIPPINES
RUSSIA
SOLOMON ISLANDS
SRI LANKA
TAJIKISTAN
THAILAND
TONGA
TURKEY
UKRAINE
VANUATU
VIETNAM
YEMEN

Development progress and challenges ahead

Since experiencing its home-grown financial crisis in 1998, most of Asia has enjoyed ten years of rapid economic growth and declining poverty, driven by an expanding private sector. South Asia as a region grew by an impressive 8% in 2007. Despite the global financial crisis, growth rates for 2008 were close to 6%.[40] The economic expansion of the two dominating economies in Asia, China and India, were the most remarkable. China grew by 13% in 2007 and continued its economic expansion fuelled by domestic demand in 2008.[41] The Indian economy expanded by 9% in 2007 and, like China, was less affected by the global recession in 2008 than the European and U.S. economies.[41] The economic growth rates achieved by other countries in South and South East Asia have also been significant and the region is overall a development success story. With the global recession increasing its tolls on emerging market economies, however, 2009 is expected to be a tough year for Asia as for the rest of the world, with lower rates of growth and the prospect of wide scale reductions in employment.

Despite impressive economic growth, the battle against poverty in Asia is far from won. To illustrate the scale of the task, in India today, some 455 million people live below the poverty line, surviving on US$1 per day or less.[15] 80% of India's population survives on less than US$2 per day. The poor in India make up 40% of the total number of poor people in the world.[42] According to the IFC, 31 of India's 35 states and territories have incomes comparable to those of the poorest countries in sub-Saharan Africa. Overall, more than 40% of the people in South Asia still survive on about US$1 per day.[43] Poverty rates in the region are projected to decrease, thanks to the rapid rate of economic expansion. South Asia is expected to achieve the Millennium Development Goal of halving the proportion of poor people as a share of the total population by 2015. This achievement, however, is still expected to leave 25% of the population of South Asia desperately poor five years hence.

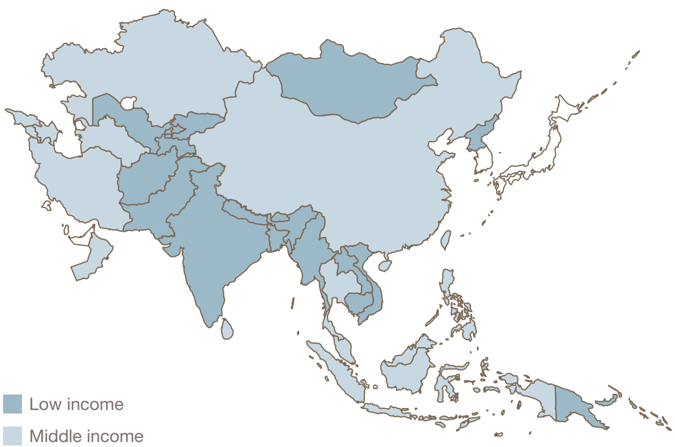
China, along with the rest of East Asia, is faring much better, with current poverty rates of 30% of the population projected to decrease below 5% by 2015.[43] Still, 16% of all the poor in the world currently reside in the vast Chinese territories. With the global recession, future growth rates are more unpredictable. Rural regions of China are lagging behind. The bulk of China's estimated 200 million poor people are located in rural Western China, far away from the booming growth cities of Beijing, Shanghai and Hong Kong and the nearby factory and manufacturing regions.

Around 45% of the people in South Asia are not employed in the formal labour markets. Only about 30% of all women are employed. 75% of employment in South Asia is considered to be vulnerable, in terms of workers that are less likely to have access to social security, income protection and effective coverage under labour legislation and therefore more likely to lack critical elements of decent work according to the International Labour Organisation (ILO).[30]

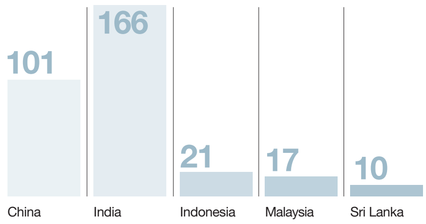
There are still high levels of malnutrition in India, Pakistan and Bangladesh. Those most likely to suffer from its debilitating effects are usually women and children. By IFC estimates, some 30% of India's households still lack access to electricity, and 20% have no sanitation facilities.[9] Access to all types of basic infrastructure and services, from clean water to healthcare, transportation and telecommunication is in short supply in rural India, as well as in rural regions throughout South Asia. The region scores second lowest after sub-Saharan Africa in global rankings which relate to the ease of doing business.[31]

The World Bank has argued that if poverty is to be reduced as projected in South Asia, growth rates need to rise to 8 to 10% and stay there for a decade. Earlier optimistic projections for poverty reduction in the region may have to be altered in light of the current global recession, with growth rates for 2009 expected to be far below what was expected one year ago. Furthermore, both urban and rural infrastructure deficits will need to be addressed and a more business friendly environment has to emerge.

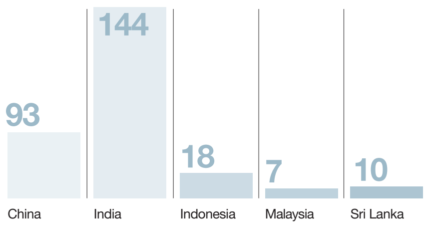
CDC's investment universe in Asia



Largest investment destinations by value (£m)



Largest investment destinations by number of portfolio companies



Asia continued

CDC's investments in Asia

CDC has been an active investor in Asia for a long time, pioneering investments in poor or difficult countries and backing promising businesses throughout the region. By the end of 2008, CDC had committed a total of US$2.2bn to 59 different private equity funds managed by 29 fund managers in Asia. By the end of 2008, CDC had 348 portfolio companies in Asia, with a total portfolio value of £363m. CDC's investments in Asia account for almost 40% of CDC's total portfolio value.

47% of CDC's investments in Asia are in India or other low income countries.[1] India is the single largest investment destination for CDC's capital, with £166m invested in 144 companies, accounting for 18% of CDC's total investment portfolio. China is the second largest investment destination in Asia for CDC, with £101m invested in 93 companies. CDC's investment policy for the 2009-2013 investment period focuses CDC's future investments exclusively on the low-income countries in Asia. China, having made remarkable progress in raising living standards and having accumulated substantial reserves of capital, will no longer figure as an investment destination for CDC from 2009. India will continue to be a major investment focus for CDC, as will the poorer countries in Asia including Afghanistan, Bangladesh, Cambodia, Laos, Nepal and Vietnam.

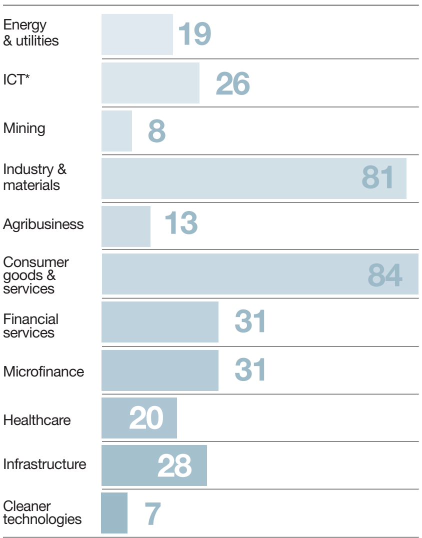
About 550,000 people are employed in CDC's 281 portfolio companies in Asia which reported employment numbers to CDC in 2008, representing 80% of CDC's total portfolio companies in the region.[38] For each person employed, the livelihoods of an estimated additional four persons are assured.[22] Through its investments in commercially strong companies, CDC is accordingly contributing to economic growth and poverty alleviation in Asia.

US$1.2bn in taxes was paid to local governments throughout Asia by CDC's 256 portfolio companies which reported tax data to CDC in 2008, representing about 74% of CDC's total portfolio companies in the region.[39] CDC's portfolio companies are accordingly major contributors to increased government revenues in Asia, providing important funding for primary education, healthcare and other basic services.

CDC's portfolio in Asia includes companies of all different sizes, which are active in all sectors of the economy. Consumer goods and services represent the single largest share of CDC's investment portfolio in Asia, with investments in 84 companies and a total investment value of £79m. Industry and materials (excluding mining) is the second largest sector for CDC's investment portfolio in Asia, with £75m invested in 81 companies. Healthcare, including hospitals and pharmaceuticals, is the third largest investment sector for CDC in Asia, with 20 portfolio companies representing an investment value of £47m. CDC also has important investments in infrastructure in Asia, with £38m invested in 28 different infrastructure companies.

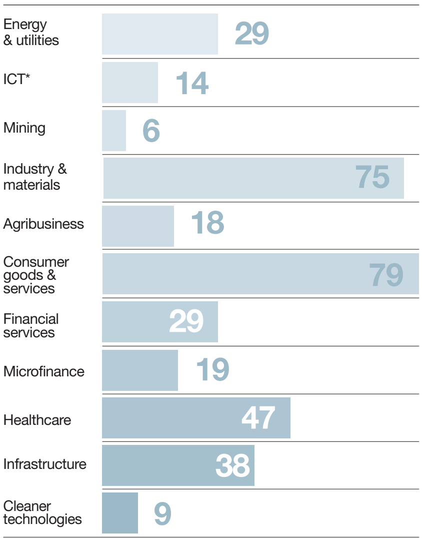
Given the relative sophistication of the private equity industry in India, China and South East Asia, CDC's focus has been to find a balance between proven fund managers with track records of investing successfully in growing companies and first time fund managers, which contribute to new investment capacities in the economies where they operate. 18 of CDC's 29 fund managers in Asia are first-time fund managers. This represents a major investment by CDC in building investment capacity in the region, thereby contributing to strengthen local capital markets.

Portfolio companies by sector (number of companies)



* Information and communication technologies

Investment value by sector (£m)



Over the last 60 years, CDC has been an innovative development investor in Asia. Highlights include:

- **Extensive investments in the agricultural sector in South East Asia** for over half a century. CDC provided finance for setting up the Federal Land Development Authority (FELDA) in Malaysia in the 1950s. FELDA was responsible for promoting rubber and rice plantations in widely dispersed parts of Malaysia. CDC itself subsequently established palm oil plantations in Malaysia, Indonesia and Papua New Guinea. CDC's last palm oil company was sold to Cargill in 2005. Since CDC adopted its fund-of-funds investment model, new investments in agribusinesses have been made by CDC's fund managers. CDC has recently made an investment of US$10m in Rabo Bank's Agribusiness Fund to be used for new investments in the agricultural sector in India over the coming years.

- Playing an early mover role in **developing the Asian private equity industry, and thus strengthening the local capital markets, including in India and China**. CDC moved into private equity in India in the mid-1990s and launched its first private equity fund, the South Asian Regional Fund, in 1997. The first CDC sponsored private equity fund in China was set up in 2000. These funds provided a platform for subsequent funds established by CDC's spin-out fund managers, Actis and Aureos, and gave confidence in the private equity model to a host of other firms. CDC is also an investor in JS Private Equity, a pioneer fund in Pakistan.

- **Promoting microfinance and SME investments.** CDC invested in Grameenphone in 1997. More recently CDC committed capital to Lok Capital, which provides equity capital and capacity building support to Indian microfinance institutions. Lok Capital facilitates the delivery of affordable financial services in India, primarily to low-income households, in a commercially viable and sustainable manner. CDC is a major investor in Aureos's SME funds in India, China and South East Asia as well as in Avigo's SME fund in India.

"With the authorities announcing plans to introduce medical insurance to 90 per cent of the rural community by 2011, a huge infrastructure spending programme and a massive easing of monetary and financial conditions, the only debate in my mind is exactly when China will restore its growth rate back above 8 per cent."

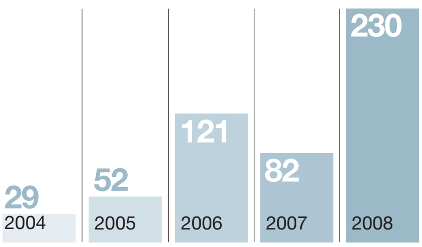
Jim O'Neill, Goldman Sachs, March 2009.

CDC's 29 fund managers that invest in Asia have offices in 11 countries

2 or more local fund managers

1 local fund manager

New investments (£m)



Asia continued

CDC's largest investments in Asia[5]

Paras Pharmaceuticals, India[44]
Healthcare, pharmaceuticals
£28m

Bharti Infratel Indus, India[45]
Infrastructure, telecoms infrastructure
£16m

Teknicast, Malaysia[46]
Energy & utilities, energy equipment & services
£11m

National Stock Exchange of India, India[47]
Financials, capital markets
£10m

CDC's evaluation result for Asian investments

65 portfolio companies

6 funds

5 fund managers

In 2008, CDC conducted evaluations of six of its fund investments in Asia. One of these evaluations was final, conducted at the end of the fund's duration. Five were conducted at mid-point, halfway through the investment duration. The evaluation work included reviews of the 65 companies that these funds had invested. It also assessed the practices of the five different fund managers that managed these six funds from offices across Asia, including staff in several offices in India and China, as well as offices in Pakistan and the Pacific islands.

The results from the six evaluations conducted in Asia were promising. Four of the funds were rated as overall successful in terms of **development outcome**. Two were rated as satisfactory. In the respective sub-categories, most funds were rated as either successful or satisfactory. One fund received the highest rating, excellent, on **financial performance**, with a net IRR above 50% following a very successful exit. The same fund received the highest rating for **private sector development**, which included successful contributions to grow businesses across a multitude of different sectors throughout India through the fund manager's local offices with Indian investment professionals. Only one fund was rated as below expectations on any parameter, which was for **financial performance**.

Performance from the environmental, social and governance (ESG) perspectives was strong, with all funds evaluated achieving a satisfactory or higher rating on **ESG performance**. One of the funds received the highest rating, excellent, for the multiple improvements realised or underway in how its portfolio companies managed ESG matters. 34% of portfolio companies covered by the evaluations had improvements undertaken or underway in terms of how they manage(d) environmental matters. Such improvements included, for example, reduced pollution from coal mining in India; improved pollution, waste and water management for a leading Indian ready-mix concrete company; and measures to improve energy efficiency and waste disposal from a major cement plant in India. 34% of the companies covered by the evaluations had measures undertaken or underway to improve labour and working conditions, health and safety standards, and/or had made community development donations from corporate profits. Examples included substantial investments in improved health and safety production standards in a number of major factories, pharmaceutical companies and mining operations in India; enforcement of minimum wage standards for a large service company; improved health and safety standards for a food producer in China; and community development programmes associated with a plantation business in Papua New Guinea. 75% of the portfolio companies covered by the evaluations had seen improvements

Summary of CDC's Evaluation Ratings in 2008 for 6 Asian funds

	Excellent	Successful	Satisfactory	Below expectations	Unsatisfactory	Poor	% satisfactory or better
Development outcome	0	4	2	0	0	0	100%
Financial performance	1	1	3	1	0	0	83%
Economic performance	0	4	2	0	0	0	100%
ESG performance	1	3	2	0	0	0	100%
Private sector development	1	5	0	0	0	0	100%
CDC effectiveness	0	5	1	0	0	0	100%
Added value	0	5	1	0	0	0	100%
Catalytic	2	1	1	2	0	0	67%

in corporate governance and/or business integrity standards during the funds' investment period.

27% of all companies covered by the evaluations had insufficient environmental standards during the time of the fund managers' investment, or had experienced some type of environmental issues during the funds' investment period. From the social perspective, this was the case for 31% of all portfolio companies. These instances most commonly involved inadequate health and safety standards, but also included, for example, below-industry standard wages at the time of investment. 33% of all portfolio companies covered by the evaluations needed improvements from the corporate governance perspective at the time of investment. CDC is satisfied that the fund managers and their portfolio companies have dealt with these issues in a satisfactory manner, or are in the process of doing so.

"In the next five years the roads will get fixed, the ports sorted out, there will be 200 million mobile subscribers and a huge increase in productivity."

Dalip Pathak of Warburg Pincus talking about India in Business Week, 20 June, 2005.

Key statistics from 2008 evaluations in Asia

Financial Performance:

1 fund above investment target in terms of net IRR, 5 funds below.

Economic Performance:[48]

66% of portfolio companies showed growth with 21,700 new jobs created.

Only 5% of portfolio companies decreased their number of workers, with 390 jobs lost.

80% of portfolio companies experienced growth in turnover.

Only 2% saw a decrease in turnover.

48% of portfolio companies demonstrated growth in profitability as measured by EBITDA. 32% reported a decrease in profits by the same measure.

ESG Performance

Four fund managers, one of whom manages two of the funds which were evaluated, were rated highly in terms of their ESG management systems. One fund manager received a satisfactory rating.

For the 43 portfolio companies that received a rating of their ESG management systems by their fund managers and CDC:

> 88% were rated as high

> 12% were rated as satisfactory

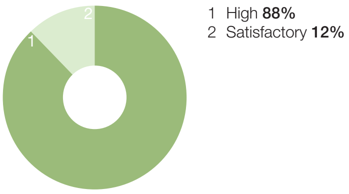
Private Sector Development

US$1.5bn in third party capital was raised by the 6 funds evaluated. CDC contributed a total of US$314m to these funds, 17% of the total capital.

82% of the third party capital invested in these 6 funds were from commercial investors, i.e., not from development finance institutions (DFIs).

All of the fund managers that were covered by the 6 evaluations have successfully raised larger successor funds, or are in the process of doing so. One of the fund managers did not raise a successor fund for the specific geography covered by one of the funds evaluated.

Quality of ESG management systems of portfolio companies from evaluations (%)



Asia continued

Sathapana, Cambodia

Access to finance and business start-up advice empowers poor women

Cambodia has a population of 14 million, 36% of whom live below the poverty line. The country has emerged from decades of dictatorial rule and civil conflict and half of the government budget comes from foreign aid. The economy is dependent on agribusiness, tourism and manufacturing, with rice, fish, timber and rubber being the main exports. Recent discoveries of oil and gas offshore are expected to drive future economic growth.

Sathapana, formerly known as Cambodian Entrepreneur Building Ltd, is a microfinance organisation in Cambodia. Since starting operations in 1996, Sathapana has provided 315,000 loans with a total value of US$126m to over 108,000 households. With each loan benefiting several family members, Sathapana's lending has had a positive impact for an estimated 700,000 people. Sathapana has 33 branches, covering 14 provincial areas and reaching 3,000 rural villages. It employs 653 full time staff members, of whom 117 are women. All staff members are paid above the local minimum wage, and have access to training and healthcare.

An affiliate of CDC's fund manager ShoreCap International, ShoreCap Exchange invested in Sathapana in 2004 and has provided Sathapana with technical assistance to improve its financial, audit and information systems.

Apart from the provision of finance, Sathapana is focused on actively helping entrepreneurial poor people, especially women, to develop micro-enterprises. Women run more than 60% of all micro-enterprises in Cambodia. Despite a strong entrepreneurial culture, women in Cambodia face socio-cultural and political discrimination, and have limited opportunities for employment. Approximately 70% of loans made by Sathapana are to women. Higher income for women tends to result in better nutrition, welfare, and education for their children and other dependents

Sathapana has employed a specialist environmental officer to strengthen environmental management. Measures include encouraging environmental awareness among staff, with an emphasis on recycling, the use of energy efficient light bulbs, and the safe disposal of hazardous materials.

Key data[1]

Investment:[2]	US$1.25m
Investment period:	2004-present
Sector:	Microfinance
Fund manager:	ShoreCap Management
Employment:	653
Employment growth:	366%
Taxes paid:	US$1m
Borrowers:	37,160
Borrower increase:[3]	28,670
Gross loan portfolio:	US$37m
Gross loan portfolio increase:[3]	US$33m
Total deposits:	US$2m
Increase in deposits:[3]	US$2m
% Women:	70%
Loan portfolio at risk >30:	0.2%

Footnotes for key data
1 From year-end 2008, except for when stated otherwise.
2 US$1.25m invested by ShoreCap International, CDC's commitment to ShoreCap International is US$4m; total fund size is US$28.5m.
3 2004-2008.

Sainik Mining, India

Expanding coal mining in a responsible and sustainable manner

Access to energy is a major problem in India, with an estimated 400 million poor people lacking reliable power in their homes. Coal is India's least expensive source of primary energy and currently meets two-thirds of India's energy needs. The coal industry is vital to India's continued economic growth and to increasing access to energy for poor and rural areas.

Coal in India, however, has a very high ash content which means that when extracted and burned, higher levels of greenhouse gases and other pollutants are released compared to when coal from other countries is burned. India is currently the world's fourth largest emitter of greenhouse gases. The expansion of coal energy accordingly has to be carefully managed from an environmental perspective.

Sainik Mining is one of the biggest coal mining contractors in India. The company was founded in East India by two ex-servicemen and their families, and has become one of India's leading mining operators. An investment from CDC's fund manager ICICI has helped to finance Sainik's expansion.

Sainik Mining is a pioneer in the use of surface mining techniques in India. As this method reduces the need for drilling and blasting, the overall pollution levels in coal extraction are much lower as compared to conventional coal mining.

Sainik Mining's sister company, which is owned by the same family, has pioneered a "washing" process to reduce the levels of ash released when coal is burned. The washing plant at Sainik's mining operations in Chattisgarh is the largest such facility in the world.

Sainik has also developed technology to produce thermal power from the coal it rejects as too high in ash content from its washing process. Sainik's new technology reduces greenhouse gases and other pollutants that are released during combustion, transportation and disposal of high ash coal.

Sainik Mining provides jobs for hundreds of workers and contractors at its mines, all of which are remotely located. It provides high living standards for the relocated workers and their families, good housing, healthcare facilities and a school for the children at the Chattisgarh mine. Health and safety standards are carefully monitored.

Sainik Mining contributes to charity, financing the operation of a school in the slum district next to its New Delhi headquarters as well as schools in the areas close to its mining operations, which are attended by 1,100 children.

Sainik Mining is now exploring opportunities to extend operations to other parts of the world including Africa.

Key data[1]

Investment:[2] US$35m
Investment period: 2007-present
Sector: Mining
Fund manager:
ICICI, Dynamic India Fund VII
Turnover: US$70m
Turnover growth:[3] US$21m
EBITDA: US$19m
EBITDA growth:[3] US$8m
Taxes paid: US$2m

Footnotes for key data
1 The data is from 2008, except for when stated otherwise.
2 US$35m invested by ICICI. CDC investment in ICICI's Dynamic India Fund VII is US$75m; total fund size is US$810m.
3 2007-8.

Other regions – Latin America

£49m CDC portfolio value

45 portfolio companies in 13 countries

£12m invested by CDC in 2008

20,000 people employed in the 24 portfolio companies which reported data in 2008[49]

US$400m in local taxes paid by the 22 portfolio companies which reported data in 2008[50]

CDC's largest investments in Latin America[5]

Regal Forest, El Salvador[51]
Consumer durables & apparel
£18m

Nextel, Brazil[52]
Telecoms,
wireless telecoms services
£3m

Capsa Diadem II, Argentina[53]
Energy & utilities, oil, gas & consumer fuel
£3m

Development progress and challenges ahead

Latin America is relatively prosperous compared to CDC's other investment geographies, although it has some of the largest income inequalities in the world. Most countries in the region, with the exception of Cuba and Haiti, are classified as middle-income economies.

Economic growth in the majority of the countries in Latin America has been strong over the last years, with average growth rates above 5% in 2006 and 2007 for the region as a whole. The economic growth in Latin America over the last five years has benefited from an expansion in inter-regional trade and exports outside of the region, primarily to the United States. Growth rates for some economies, including Brazil and Mexico, were lower, while some other countries performed better than the regional average. Notable examples included Argentina and Venezuela, which grew by 9% and 8%, respectively, in 2007.[54] While impressive, the high growth rate in Venezuela was driven by booming oil prices and growth in Argentina was fuelled by populist measures including artificial currency interventions to promote exports.

Several countries in Latin America have made strides in improving their fiscal and monetary policies over the last years, which has improved their economic growth prospects and made their markets more attractive for international investors. Brazil, Chile, Colombia, Peru and Mexico are notable examples, while Argentina, Ecuador and Venezuela are lagging behind in implementing economic reforms. With its population of almost 200 million people, Brazil is the fifth most populous country in the world and a huge domestic market. Not surprisingly, Brazil dominates the Latin American private equity market, with well developed capital markets and a large, liquid stock exchange. In contrast, Mexico has a relatively small private equity market compared to the size of its economy, given a relatively difficult tax environment, an immature stock market and the lack of a strong investment culture. Colombia and Peru are new private equity markets with great potential, commercially as well as developmentally given their fragmented industries with several companies of all sizes in need of modernisation. Chile, a relatively small and rich economy, is arguably not in need of public development finance.

The global recession in 2008 adversely affected economic growth rates also in Latin America. On average, Latin America grew by more than 4% in 2008, while there were major differences between how different countries in the region were affected by the downturn. The decline in oil prices in 2008 adversely affected the major oil producers, including Mexico, Venezuela, Colombia and Ecuador. Other countries suffered from the declining demand for imports from the United States, the major export market for the region. Mexico is currently experiencing a major recession, partly due to its close economic relationship with the United States which accounts for the bulk of Mexican exports. Argentina and Venezuela are also struggling after previous boom years. On the other hand, Peru, Colombia and Brazil seem to be

CDC's fund managers have investments in 13 countries in Latin America

6–15 investments
1–5 investments

ARGENTINA
BRAZIL
COLOMBIA
COSTA RICA
ECUADOR
EL SALVADOR
GRENADA
GUATEMALA
HAITI
MEXICO
PANAMA
PERU
ST. LUCIA

coping relatively well with the global recession, albeit with significantly lower GDP growth than over previous years.

Foreign investment and private credit to Latin America have expanded widely over the last five years, and were major factors behind the positive economic growth enjoyed by most countries in the region over this period. The current financial crisis has seen a drop in foreign investment for Latin America in 2008, as for most other economies.

Despite relatively high average income levels and strong economic growth in Latin America in recent years, poverty and inequality persist. Some of the countries in the region, notably Brazil and Colombia, suffer from higher income inequalities than most other countries in the world, with a small minority of very wealthy families, a substantial middle class, and large numbers of very poor people. More than 20% of people in Latin America still subside on less than US$2 per day. More than 5% of Latin Americans survive on around US$1 per day. About 45 million people in the region fall below the poverty line, representing 3% of all poor people in the world.[15] Poverty rates are expected to decrease in Latin America over the next five years, but at a much slower pace than what some of the countries in Asia, notably China, are expected to be able to achieve.

CDC's investments in Latin America

Investments in Latin America investment, make up about 5% of CDC's total investment portfolio, with a total portfolio value of £49m invested in 45 different companies. CDC is invested in ten different funds investing in Latin America which are managed by six fund managers. All of these fund managers are locally based and managed by local teams. CDC's fund managers have offices in Argentina, Brazil, Costa Rica, Colombia, El Salvador and Mexico.

CDC is invested in 13 different countries in Latin America, including the largest economies Brazil, Mexico and Argentina, but also some of the smaller, poorest countries in the region like Guatemala, El Salvador and Haiti. Regal Forest Holding in El Salvador is CDC's single largest investment in Latin America, with an investment value of £18m. Mexico is otherwise CDC's largest investment destination in Latin America, with £8m invested in nine companies, followed by Brazil, with £7m invested in five companies. In Costa Rica, CDC is invested in ten small and medium size enterprises (SMEs).

CDC's investments in Latin America span most industry sectors. Consumer goods and services account for the bulk of CDC's investment value, with £22m invested in ten different companies. Energy and utilities, banking and financial services, as well as information and communication technologies (ICT) are also well represented among CDC's Latin American investments, with investment values above £5m per sector and 21 different portfolio companies across these three sectors.

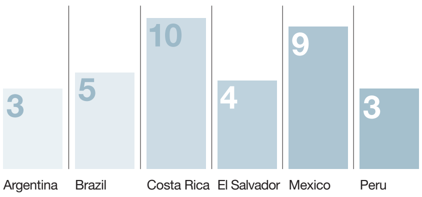
Microfinance represents 5% of CDC's total investment value in Latin America, with £2m invested in three different microfinance institutions. These providers of finance for the poor service the segment of Latin America's population that previously did not have access to necessary capital to initiate or grow their small businesses and thus improve livelihoods for themselves and their families.

About 20,000 people are employed in CDC's 24 portfolio companies in Latin America which reported employment numbers to CDC in 2008, representing slightly more than half of CDC's total portfolio companies in the region.[49] For each person employed, the livelihoods of an estimated additional four persons are assured.

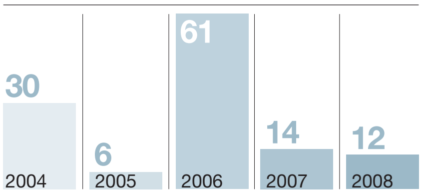
US$400m in taxes was paid to local governments throughout Latin America by CDC's 22 portfolio companies which reported tax data to CDC in 2008, representing slightly less than half of CDC's total portfolio in the region.[50]

Going forward, Latin America is not CDC's most prioritised investment region as CDC's investment policy for the 2009 to 2013 period is to focus on the poorest countries in the world, which are primarily located in sub-Saharan Africa and South Asia. Through its fund managers, CDC will primarily focus new fund investments in Latin America on the SME sector.

Largest investment destinations by number of portfolio companies



New investments (£m)



CDC's investment universe in Latin America

Low income

Middle income

CDC's 6 fund managers that invest in Latin America have offices in 6 countries

2 or more local fund managers

1 local fund manager

Other regions – North Africa

£50m CDC portfolio value

27 portfolio companies in 4 countries

£35m invested by CDC in 2008

15,000 people employed in the 19 portfolio companies which reported data in 2008[55]

US$10m in local taxes paid by the 12 portfolio companies which reported data in 2008[56]

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Development progress and challenges ahead

The five countries that make up Northern Africa: Morocco, Algeria, Tunisia, Libya, and Egypt, are relatively more prosperous than the countries in sub-Saharan Africa. Economic growth has been positive over the last years, with average growth rates for the region above 5% in 2006 and close to 6% in 2007. Despite the global recession, North Africa kept up its relatively high economic growth rate in 2008, averaging 6% across the region with Egypt and Tunisia performing even better.[40]

About 3% of the population in North Africa and the Middle East live on about US$1 per day.[57] In terms of absolute numbers, this represents less than 1% of all poor people in the world. Poverty rates in the region is projected to decrease further by 2015.[15]

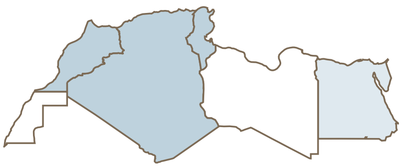
Despite relatively high average income levels, North Africa and the Middle East continue to suffer from high unemployment, especially among youth and women.[57] Only around 25% of the young and less than 30% of women are estimated to hold formal employment. These statistics are the lowest for any region in the world.[58] Lack of access to finance, especially for poor people, women entrepreneurs and smaller businesses, also remain major impediments to sustained economic growth in North Africa.

CDC's investments in North Africa

North Africa makes up about 6% of CDC's total investment portfolio, with a portfolio value of £50m invested in 27 different companies. CDC is invested in two funds managed by two different fund managers. Both fund managers are locally based and both have offices in Tunisia and Morocco. One of the fund managers also has an office in Egypt; the other has an office in Algeria. CDC also has some exposure to North Africa through pan-African funds.

CDC is invested in four of the five countries that make up North Africa, with the exception of Libya. Algeria is by far the largest investment destination for CDC in North Africa, through a large investment of £37m in Algeria's first private mobile phone operator, Orascom Telecom. Orascom is CDC's second largest individual company exposure anywhere in the world. Other investments by CDC-backed funds in Algeria amount to £4m in five different companies. Investments in three companies in Egypt represent CDC's second largest country exposure in North Africa, representing a total investment value of £13m. CDC furthermore has £8m invested in nine companies in Tunisia and £3m invested in seven companies in Morocco.

CDC's fund managers have investments in 4 countries in North Africa



ALGERIA
EGYPT
MOROCCO
TUNISIA

6–15 investments
1–5 investments

CDC's investments in North Africa include most industry sectors. CDC has other assets in infrastructure and ICT, in addition to the large Orascom investment in mobile telephony infrastructure and wireless services, with £1m invested in three other telephony infrastructure companies and £1m invested in one other ICT company. Healthcare represents CDC's second largest sector exposure in North Africa, with £6m invested in three different companies. The third largest sector for CDC's investments in North Africa is consumer goods and services, with £5m invested in four companies. Agribusiness comes fourth with £3m invested in four companies.

About 15,000 people are employed in CDC's 19 portfolio companies in North Africa which reported employment numbers to CDC in 2008. This represents 70% of CDC's total portfolio companies in the region.[3] For each person employed, the livelihoods of an estimated additional four persons are assured.

US$10m in taxes were paid to local governments throughout North Africa by CDC's 12 portfolio companies which reported tax data in 2008, representing 45% of CDC's total portfolio in the region.[4]

Going forward, CDC does not plan to commit more capital solely to North Africa, in view of its focus on the poorest countries in the world which are mostly located in sub-Saharan Africa and South Asia. North African companies, though, are increasingly active investors in sub-Saharan Africa. Through CDC's investments in pan-African funds, CDC is likely to continue to have an exposure to the region.

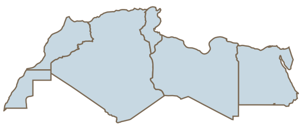
CDC's largest investments in North Africa[5]

Orascom Telecom, Algeria[59]
Telecoms, wireless telecoms services
£37m

Amoun Pharmaceuticals, Egypt[60]
Healthcare, pharmaceuticals
£7m

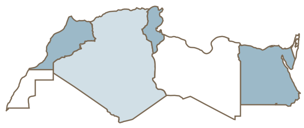
Sinai Marble, Egypt[61]
Materials, metals & mining
£5m

CDC's investment universe in North Africa



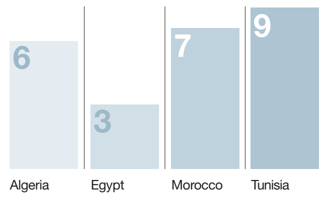
Low income
Middle income

CDC's 2 fund managers that invest in North Africa have offices in 4 countries

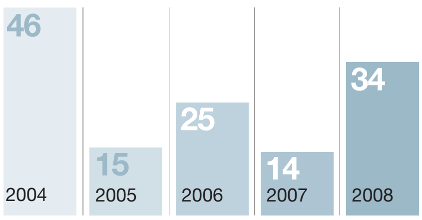


2 or more local fund managers
1 local fund manager

Largest investment destinations by number of portfolio companies



New investments (£m)



Other regions continued

Orascom Telecom, Algeria

Orascom, Algeria 14 million new mobile phone subscribers in a post-conflict country

Algeria has a population of 34 million, 12% of whom are estimated to live below the poverty line. The country derives significant revenues from oil, which have stimulated economic growth and development over the last ten years. However, the development of a strong private sector and a diversified economy have been hindered by a number of factors including political turmoil, lack of capital, administrative barriers, inadequate infrastructure and limited access to information technology.

Orascom is a leading mobile phone operator in Algeria. It currently has 14 million mobile subscribers. Established in 2001, Orascom was the second mobile phone company in Algeria to be granted an operating licence. At this time, there were only 80,000 mobile subscribers in Algeria, serviced by the sole state owned operator.

When CDC, through its fund manager Actis, invested in Orascom in 2004, the number of mobile phone users in Algeria had risen to over one million. Still, Algeria had one of the lowest mobile phone penetration rates in the world. Actis' investment was used to complete Orascom's licence payment and to fund further expansion of the network and improved infrastructure. By the end of 2007, the number of mobile users in Algeria had risen to 28 million.

Orascom Algeria is recognised in North Africa as an environmentally and socially responsible firm, and has been ISO9001 (Quality Management Systems) and ISO14001 (Environmental Management Systems) certified.

The investment from CDC, through Actis, has helped to attract further commercial capital to what is widely considered to be a risky political environment.

Key data[1]

Investment:[2]	US$26m
Investment period:	2004-present
Sector:	Telecoms
Fund manager:	Actis, Africa fund 1
Employment:	3800
Employment growth:[3]	1900
Turnover:	US$1.9bn
Turnover growth:[3]	US$1.14bn
Taxes paid:	US$70

Footnotes for key data
1 From year-end 2008, except for when otherwise stated.
2 US$26m invested by Actis. CDC's investment in Actis Africa Fund I is US$308m; total fund size is US$308m.
3 2004-2008.

Aluminio de Panama, Panama

Improving wastewater treatment in a high-risk industry

Panama has been one of the fastest growing economies in Latin America in recent years, averaging 9.5% growth rates since 2006. Despite the high level of economic growth, the country has one of the highest levels of income inequality in the world, with over 30% of the population of 3 million living in poverty.

Located outside of Panama City, Aluminio de Panama is the country's leading aluminium manufacturer. It makes a range of aluminium products for architectural and structural use by the construction industry.

The process of manufacturing aluminium can generate significant and potentially environmentally harmful wastewater. Aluminio de Panama complies with Panamanian legislation for treatment of wastewater. The company also actively cooperates with ANAM, the Panamanian environmental national authority to ensure its operations have minimal environmental impact. All effluent discharged by Aluminio de Panama complies with both local standards and International Finance Corporation (IFC) guidelines.

Over the course of CDC's fund manager Aureos' investment, Aluminio de Panama has implemented a number of improvements to its facilities in order to reach compliance with international standards. Using money invested by Aureos, the company improved its production process, replacing hexavalent chromium with less environmentally harmful chemicals.

Aureos is currently helping Aluminio de Panama to obtain additional financing to further improve its wastewater treatment process and achieve international certification.

Improved wastewater treatment will allow for the recycling of sludge, a solid residue generated in the production process. Currently, sludge is disposed of, but, if properly treated, other products can be obtained and reused from its recycling.

Key data[1]

Investment:[2]	US$5m
Investment period:	2006-present
Sector:	Manufacturing
Fund manager:	Aureos
Employment:	260
Employment growth:[3]	60
Turnover:	US$15m
Turnover growth:[3]	US$5m

Footnotes for key data
1 From year-end 2008, except when otherwise stated.
2 US$5m invested by Aureos. CDC's investment in Aureos Central America Fund is US$10m; total fund size is US$36m.
3 2006-2008.

Chapter 7

Industry sector reviews and SME funds

Businesses of all sizes, operating in all sectors, are important for sustainable development and economic growth. Manufacturing, financial services, technology, consumer goods and services, industry, retail and agribusiness all have vital contributions to make. Small and medium size enterprises (SMEs), start-ups and larger businesses are all important. CDC's fund managers invest across the full range of industry sectors and in businesses of all sizes and at all stages of development.

This report highlights the development value of multiple industry sectors and focuses particularly on CDC's investments in energy and utilities, information and communication technologies (ICT), financial services, microfinance and funds for investment in SMEs.

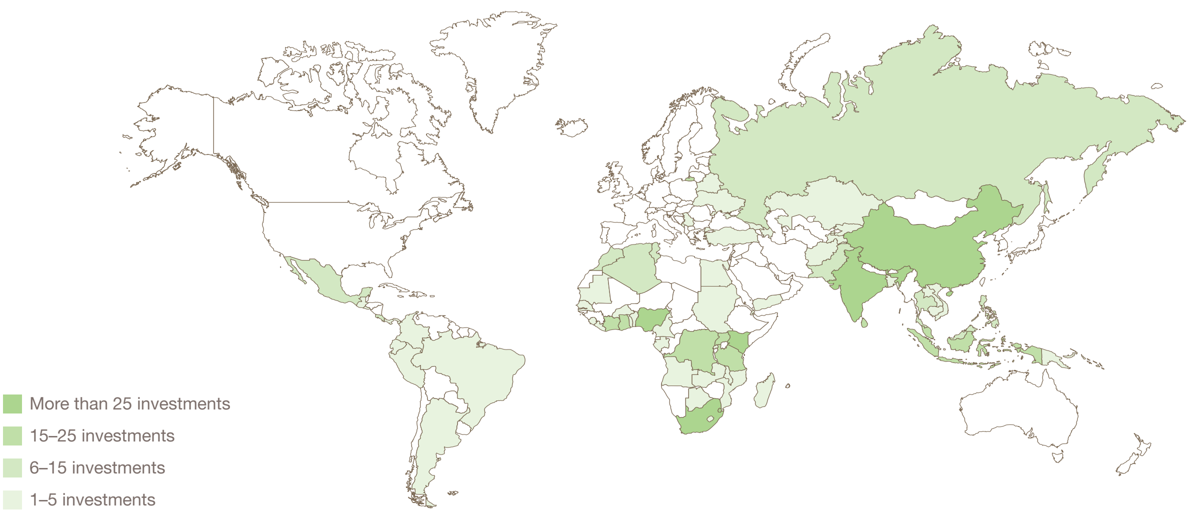
Chapter 7 – Industry sector reviews and SME funds

CDC's fund managers invest in companies across all sectors of the economy which all have important contributions to make to private sector led growth and social and economic development.

This chapter provides in depth reviews of CDC's investments in a few selected sectors and SME funds. Other sectors are briefly covered. Further information on CDC's investment portfolio and case studies are provided on CDC's website and will be published in future reports.

Industry sector reviews and SME funds

CDC's fund managers have investments in 74 countries



Energy & utilities

The lack of safe and reliable electricity is one of the most important obstacles for individuals and businesses in developing countries.

£126m CDC portfolio value

44 portfolio companies in 17 countries

£64m invested by CDC in 2008

10,000 people employed in the 28 portfolio companies which reported data in 2008[3]

US$375m in taxes paid by the 20 portfolio companies which reported data in 2008[4]

The value of energy and utilities for development

Electricity is needed to power small industry and enterprises, run health clinics and light schools. Without access to reliable electricity, rural poverty will not be eradicated. The World Bank estimates that nearly 75% of the population in sub-Saharan Africa lacks access to electricity. 700 million people in South Asia similarly do not have power to their homes and businesses.[62]

Lack of access to electricity often results in aggravated environmental degradation and pollution arising from reliance on biomass fuels, with firewood the traditional energy source. Firewood is usually gathered by women and children, the daily task often taking hours and acting as an impediment to earnings and education.

Network safety is frequently poor in developing countries as high-voltage power lines are often damaged and exposed. Frequent power outages impede performance for local businesses, with losses in productivity and revenues. Employees and entrepreneurs suffer through loss of earnings. Many businesses are forced to rely on costly generators, adding considerably to total energy costs.[32]

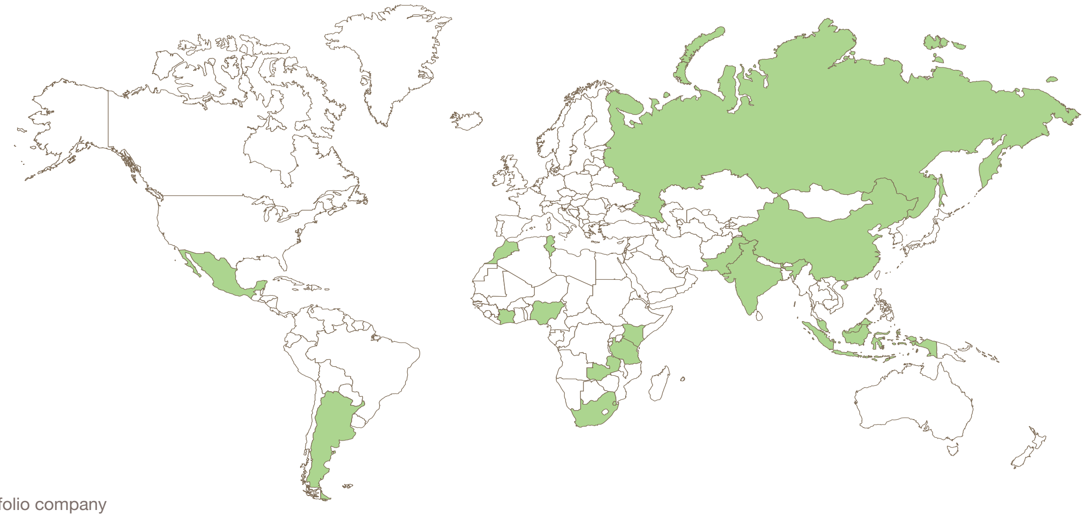
The provision of adequate power generation and distribution in poor countries will be impossible without major capital investments. Jamal Saghir, director for energy, transport and water at the World Bank, has commented that Africa needs investment in energy of US$31bn a year.[63]

Over one billion people in poor countries currently do not have access to safe drinking water. One of the United Nations' Millennium Development Goals is to halve this number by 2015. More than two billion people lack access to basic sanitation. Removal of solid waste is recognised by the World Health Organisation (WHO) as one of the most urgent problems in developing countries to prevent the spread of disease and decrease child mortality. As for power, investments in utilities are a pressing priority for developing countries.

CDC's investments in energy and utilities

Investing in power has been a longstanding priority for CDC. In 2002, CDC established **Globeleq**, a wholly owned subsidiary, by combining all of its power investments. Four years later, Globeleq had investments in 23 power companies in 16 countries with a total of more than 2,000 Megawatts in generation capacity and ownership of one national power distribution company in Uganda.

CDC's fund managers have investments in energy & utilities in 17 countries



CDC portfolio company

Energy & utilities continued

"No profit seeking company can afford to bet on Africa's unreliable power (…) as the source of its manufactured inputs. Of course, were Africa's dire infrastructure predicament remedied, its change for higher-value trade could dramatically improve."

Dambisa Moyo, author of the book "Dead Aid", p. 120-121.

Globeleq has played an important role in economic development by helping to provide reliable, affordable energy and increased access to electricity for large numbers of new customers in developing countries.

In 2007, Globeleq sold its operating power businesses in Latin America, North Africa and Asia, to two international private sector companies. The energy generation and distribution companies in sub-Saharan Africa were retained for further investment and improvement over the coming years and are managed by CDC's fund manager Actis. These investments include:

A major natural gas producer in Tanzania, Songas is CDC's single largest investment worldwide, representing an investment value of £70m. Songas provides clean energy to the Tanzanian national grid and industrial users in Dar es Salaam. The Songas-owned gas-to-electricity project on Songo Songo island became operational in 2004 and currently accounts for 20% of Tanzania's installed power generation capacity. Previously, Tanzania's primary source of energy was imported oil. Songas provides a significantly cheaper source of locally generated electricity. The cost of power delivered in Tanzania has halved from US$0.11 to US$0.06 per KWh and the heavily indebted Tanzanian economy has been able to reduce its dependency on expensive oil imports.[64]

Songas also brings environmental benefits as gas is a cleaner source of energy than oil.

CDC's investment in the Tsavo heavy fuel oil turbine power plant near Mombasa in Kenya, began in the 1990s when the Kenyan government introduced improved environmental legislation and policy reforms for private sector investments.

Tsavo has been commercially operational since 2002. Unlike many other energy generation plants in sub-Saharan Africa, it abides by the International Finance Corporation's (IFC) environmental and health and safety guidelines for power generation. During the decade of CDC's investment, Tsavo has substantially improved environmental management and can be considered a role model for power generation in the region.

The Azito power plant, near Abidjan in Côte d'Ivoire, is another CDC investment built in full accordance with IFC's environmental and health and safety guidelines. It is considered to be one of the most modern power stations in West Africa.

The sale of Globeleq released over US$1bn for re-investment by CDC in poor countries. CDC and its fund manager Actis consequently established a new US$750m emerging markets infrastructure fund focused on the poorest countries in sub-Saharan Africa and South Asia.

Through the Global Environment Fund (GEF), CDC invests in Duoyuan Global Water, a water treatment equipment supplier in China. As a provider of circulating water treatment, water purification and wastewater treatment, Duoyuan is contributing to China's ability to tackle its water problems, including water supply, water quality, infrastructure and effluent treatment capacity. The company has had a full environmental, social and governance (ESG) review as part of its ISO certification process. Issues identified were addressed through an environmental action plan. The action plan's execution is a covenant in the legal agreements signed with GEF, and requires Duoyuan to meet the standards for environment, health and safety set by the IFC which are shared by CDC.[65]

CDC's largest investments in energy & utilities[5]

£70m Songas, Tanzania
Energy generation[33]

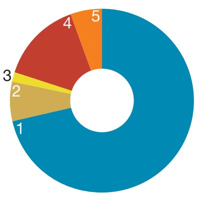
£32m Empower, South Africa[35]
Multi-utilities

£11m Teknicast, Malaysia[46]
Equipment and services

£7m WSP Holdings Ltd, China[66]
Equipment and services

£7m Gulf of Guinea Energy Limited, Nigeria[137]
Oil, gas and consumable fuel[67]

Portfolio value by region (£m)



1 Africa **£90m**
2 China **£9m**
3 India **£2m**
4 Other Asia **£18m**
5 Latin America **£7m**

Number of companies by region

1 Africa **21**
2 China **5**
3 India **6**
4 Other Asia **8**
5 Latin America **4**

Umeme, Uganda

Upgrading an ailing power distribution network

Umeme is the prinicipal power distribution company in Uganda. Formerly state-owned, Umeme's network covers a significant proportion of Uganda and includes 230,000 poles and 17,000 km of overhead cable.

Umeme has played an important role in increasing access to electricity. 88,000 new customers have been connected by Umeme since its creation, while over 30 rural electrification schemes have been connected to the Umeme grid.

At the time of CDC's investment in 2005, Umeme's network was in a state of disrepair as a result of historic underinvestment. The challenge and scale of turning the business around were considerable and this was recognised from the outset. Consequently, over the last four years, Umeme's capital expenditure programme of US$60m has focused on upgrading and improving key areas of the business.

The refurbishment and strengthening of the network has been central to CDC's primary commitment to make the network safer. Falling power lines, caused by decades of underinvestment, have been the cause of serious accidents, often fatal. Power lines come down for a variety of reasons, the most common of which is that existing poles have decayed causing the network to collapse or old cables to fall during the rainy season.

Before Umeme took over the concession of Uganda's power distribution network, the data regarding serious accidents was poor. However, there is anecdotal evidence that there were about 30 fatal accidents each year. In the four years since CDC's investment in Umeme, the number of fatalities was 53 in total, a cause of serious concern. The number of fatalities is expected to fall as a consequence of a sustained programme of renewed safety measures and renewed investment by CDC's fund manager Actis.

In addition to the investments in replacing and upgrading old power poles and cables, Umeme has undertaken an extensive safety outreach programme to educate the Ugandan public. Safety awareness information has been communicated extensively to rural populations through radio bulletins, leaflets, community talks and newspaper articles. A far reaching schools education programme, featuring electrical safety talks and advice, has also been implemented. In 2008, Umeme staff and specialised safety experts visited 2,333 schools throughout Uganda as part of this programme. Umeme's public safety awareness raising campaign is continuing in 2009.

Upgrading and maintaining the network and its infrastructure is a continuous process. A further US$100m is earmarked to be invested in network restoration over the next four years.

In economic terms, over 1,000 new jobs have been created through contracts with several experienced local Ugandan engineering firms to carry out the refurbishment works on Umeme's power distribution network.

Ugandan electricity consumers have benefited from the new investments in the construction of new substations and refurbishment of existing substations. Improved customer billing systems and a readily available call centre have also been introduced.

Key data*

CDC investment:	US$40m
Investment period:	2005 – present
Shareholding:	100% owned by CDC
Sector:	Power distribution
Fund manager:	Actis
New power distribution customers:	88,000
Employment:	1165
Employment growth:	1000 (contractors)
Turnover:	US$233m
EBITDA:	US$32m
Taxes paid:	US$4m

*Data for turnover, EBITDA and taxes is from 2007.

Umeme's climate change contributions:

- Much of the electricity distributed by Umeme comes from hydropower. This is a much cleaner source of power than other alternatives, such as oil or coal
- The World Bank report "Catalysing carbon investment for a low carbon economy – World Bank progress on renewable energy and energy efficiency 2007" lists Umeme as one of their energy efficiency projects.

Information & communication technologies (ICT)

Improvements in communications have a profound development impact, opening opportunities for businesses, communities and individuals in isolated and rural areas.

£83m CDC portfolio value

56 portfolio companies in 23 countries

£9m invested by CDC in 2008

58,000 people employed in the 42 portfolio companies which reported data in 2008[3]

US$342m in taxes paid by the 38 portfolio companies which reported data in 2008[4]

The value of ICT for development

Information and communication technologies (ICT) can help businesses reach new customers and suppliers, access sources of finance and tap into market information on prices and customer preferences. Individuals can connect to their families. People can discover new opportunities. Access to international knowledge about new technologies, events and trends is also important to fuel growth and development, as well as to promote democratic processes.

An increase in telephone and internet penetration is both directly and indirectly associated with economic growth. A study by the International Finance Corporation (IFC) on the impact of mobile phones in developing countries indicates that a 10% increase in telephone usage can lead to a direct GDP gain of 0.6% and a larger indirect gain.[9]

In Africa, fixed telephone line coverage is only available to 1% of the population.[9] Much remains to be done to extend the full range of ICT access to poor countries, especially to sub-Saharan Africa and rural and isolated communities throughout the developing world. Until recently, there were only 3,000 fixed telephone lines in the Democratic Republic of Congo (DRC), half of them broken.

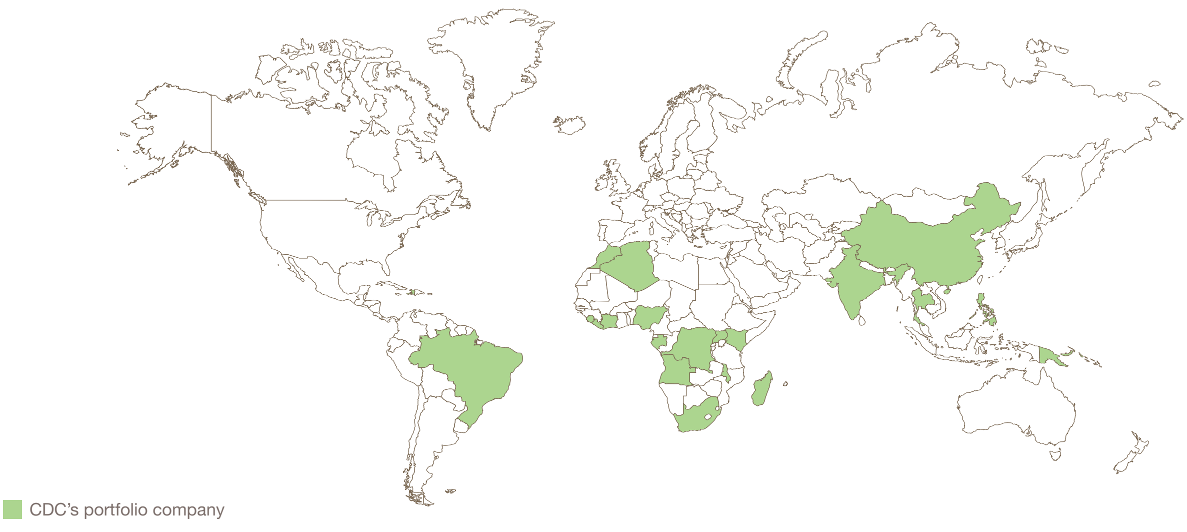
ICT can bring critical health services and education opportunities to people living in remote areas. Financial services for the poor are also increasingly available through the mobile phone network, substantially reducing the costs of credit compared to traditional local providers of small loans.

The number of customers in India using GSM technology has now reached about 290 million. Between February and March 2009, the figure rose by 11 million, the highest monthly addition of new mobile GSM phone subscribers ever to any market.[68]

CDC's investments in ICT

CDC was one of the first investors in the pan-African mobile telephony business Celtel in 1998, when there were only two million mobile phones in Africa. Celtel brought mobile communication technology to millions of Africans for the first time. Africa is now the fastest growing region in the world for mobile telephony, with at least 100 million mobile phones in operation throughout the continent. When CDC's fund manager Actis sold its investment in Celtel in 2005, Celtel

CDC's fund managers have investments in ICT companies in 23 countries



covered 30% of Africa's population with provision of mobile phone services through 13 different operating companies. Celtel at the time served eight million customers, employed 3,500 people in high quality jobs, and supported some 30,000 indirect jobs. Celtel helped create a new cadre of African leaders through training top employee teams at the London Business School. The company's founder, Dr Mo Ibrahim, now runs his own charitable foundation focusing on good governance and leadership in Africa. Celtel's success has shown that it is possible to thrive doing business in sub-Saharan Africa by working in an efficient, responsible and ethical way.

CDC's ICT investments include large businesses in wireless telecommunication services and infrastructure as well as small and innovative ICT start-ups. CDC's fund managers have substantial investments in companies driving the Nigerian mobile telephony revolution through MTN Nigeria, Starcomms (an investment successfully exited by CDC's fund manager Actis in 2008) and Helios Towers. MTN is currently rapidly rolling out coverage to other countries in West Africa, including Cameroun and the DRC. CDC's fund manager Helios has also invested in Africa Tel, which is extending mobile telephony access across Angola. In India, CDC's fund managers have invested in several ICT companies, including Bharti Infratel Industries, which is rapidly rolling out increased wireless coverage across India, and MphasiS, an IT solution company.

With over 20,000 telecom towers and associated facilities, the expanding Indian wireless infrastructure provider Bharti Infratel Industries is expanding rapidly with a focus on rural India with an investment from CDC's fund manager AIF Capital.

CDC's second largest Indian investment in ICT through the fund manager Baring Private Equity Partners India, MphasiS offers IT solutions to companies across different industries, including financial services, logistics, telecom, technology and retail. The company is expanding rapidly and grew by 124% from 2003 to 2008.

Entrepreneurs in poor countries can also be innovators of ICT solutions. CDC's investment portfolio includes promising examples of local innovation for the benefit of poor countries. ETranzact, a Nigerian ICT company with an investment from CDC's fund manager African Capital Alliance, has developed a new platform for payments over the mobile phone. ETranzact's technology gives poor and previously unbanked people access to payment services, allowing them to pursue new economic opportunities. ETranzact's technology also has a positive gender dimension as it is much safer for women in Nigeria to make payments over the mobile phone than to carry cash or go to a bank withdrawal point. With VISA, Mastercard and other credit card companies absent from Nigeria, the demand for non-cash payment systems is substantial and ETranzact rapidly acquired five million users of its mobile cash payment system. 1.5 million of ETranzacts new customers did not previously have bank accounts. ETranzact now plans to expand into Ghana, Côte d'Ivoire and Sierra Leone.

CDC's fund manager Avigo has invested in Comat Technologies, an Indian ICT company. Comat serves primarily rural areas using kiosks to provide internet access together with information on crops and cattle, healthcare and financial services. Government ration cards and food coupons are also available at the kiosks, as well as information about educational courses, mobile phone top-ups and railway tickets.

CDC is invested in MTN-CI, through its fund manager ECP, which is the leading mobile phone company in Côte d'Ivoire. MTN-CI has almost three million subscribers and employs 580 people. Its mobile telephony products are distributed through a network of over 200 wholesale dealers and 60,000 independent resellers in Côte d'Ivoire providing high quality employee opportunities in this post-conflict country.[69]

In Papua New Guinea (PNG), Data Nets is one of only four companies providing internet access and solutions to local businesses. Internet penetration in PNG is currently among the lowest in the world, 1.5%, which Data Nets is committed to expand. With an investment from CDC's fund manager Aureos, Data Nets is currently expanding its services to include disaster recovery, internet hotspots, home wireless products and controlled internet access at schools. The internet connectivity for schools is expected to be provided at cost, as Data Nets' CEO views internet access for the young as a vital element in PNG's social and economic development.

CDC's largest investments in ICT[5]

£37m Orascom Telecom, Algeria
Wireless telecoms services[59]

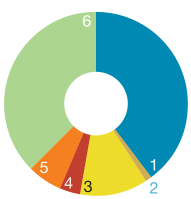
£19m MTN Nigeria
Wireless telecoms services[70]

£8m Africa Tel, Angola[71]
Diversified

£4m MphasiS Limited (XYZ Limited), India
Software & services[72]

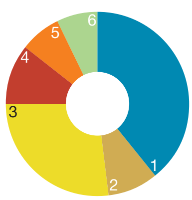
£3m Nextel, Brazil
Wireless telecoms services[73]

Portfolio value by region (£m)



1. Sub-Saharan Africa **£33m**
2. China **£1m**
3. India **£10m**
4. Other Asia **£3m**
5. Latin America **£5m**
6. North Africa **£31m**

Number of companies by region



1. Sub-Saharan Africa **22**
2. China **5**
3. India **15**
4. Other Asia **6**
5. Latin America **4**
6. North Africa **4**

Financial services (excluding microfinance)

Businesses need financing to grow and prosper. Loans and other sources of finance are in short supply in many developing countries, especially in sub-Saharan Africa.

£151m CDC portfolio value

156 portfolio companies in 29 countries

£116m invested by CDC in 2008

74,000 people employed in the 112 portfolio companies which reported data in 2008[3]

US$280m in taxes paid by the 46 portfolio companies which reported data in 2008[4]

The value of financial services for development

Vast swathes of land in rural areas are underserved by banks. In Uganda, for example, only 15% of households save in financial institutions.[74] Lack of access to finance for businesses in developing countries is commonly realised as one of the most important barriers to growth. Where credit is available, it is often prohibitively costly. Commercial loans for governments are also heavily constrained, reducing flexibility for public investment.

Financial institutions fuel economic growth and private sector development by helping to allocate financial resources where they are the most productive. Numerous empirical studies have shown that the deepening of the financial services sector leads to higher rates of capital accumulation and higher levels of per capita income. The financial sector can stimulate poverty reduction by mobilising savings for productive investments, facilitating remittances from abroad and enabling secure savings and insurance.[75]

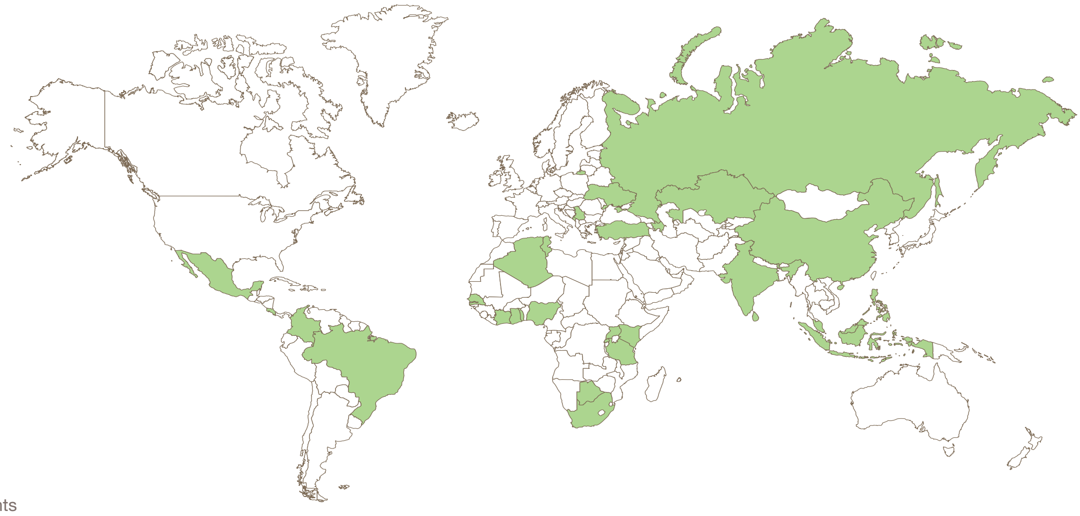
Banks and other financial institutions are a major source of relatively high-skill employment and tax revenues for local governments. While state-owned banks have historically dominated provision of financial services in developing countries, privatisation of financial institutions and their deregulation has been widely implemented and provides the basis for expansion of more efficient and expansive privately run financial services institutions. Privatisations have led to increased effectiveness of financial service institutions in poor countries and increased availability of financial services for new and growing businesses. Increased diversity of financial institutions also serves to improve transparency, with fewer instances of corruption.

Financial services in rural areas still rely heavily on the informal sector, where village money lenders can often charge extraordinarily high interest rates. In such settings, expanding the reach of competitive services through local intermediaries can greatly improve affordable access to business and personal loans.

CDC's investments in financial services

CDC's major investments in financial services, through its fund managers, include DFCU, a finance provider to enterprises in Uganda; Diamond Bank, a leading Nigerian bank; Alexander Forbes's subsidiary in South Africa; the National

CDC's fund managers have investments in financial services (excluding microfinance) in 29 countries



Investments

Stock Exchange of India, and Equity Bank, a rapidly growing bank in East Africa.

With 45 years of provision of financial services, the Development Finance Corporation of Uganda (DFCU) is associated with many of Uganda's success stories in education, healthcare services, manufacturing and agro-processing. CDC cofounded DFCU together with the Ugandan government in 1964, and has since then played an active investor role with strategic development advice.[76] CDC's investment in DFCU is currently managed by CDC's fund manager Actis. As Uganda's largest financial entity, and a leading player in Uganda's economic development, DFCU has been working over time to extend its reach to underserved communities throughout the country. DFCU also allocates grants to community development programmes and sponsors environmental conservation, sanitation services and provision of healthcare services for the poor.[77]

Founded in 1991, Diamond Bank is one of Nigeria's leading banks. CDC was an early investor in Diamond Bank. CDC's fund manager Actis took over the management of this investment in 2004. Diamond Bank focuses on providing access to finance for small and medium size enterprises (SMEs). The bank's corporate social responsibility activities include funding for HIV/AIDS programmes and efforts to address avoidable blindness. Diamond Bank also supports education programmes and other youth development initiatives.[78]

Alexander Forbes is a leading provider of risk management services, insurance broking, employee benefit administration, actuarial services, asset management consulting, multi-management investment services and alternative risk finance and underwriting solutions.[79] CDC was a direct investor in Alexander Forbes' expansion into Africa. CDC's fund manager Actis currently manages CDC's investment in Alexander Forbes' South African subsidiary. Alexander Forbes in South Africa has funded activities to provide care for the elderly and the disabled, HIV/AIDS prevention and treatment, support for female entrepreneurs, and environmental protection. CDC and Actis are presently closely tracking the consequences of allegations of mismanagement at Alexander Forbes.

Equity Bank was established in Kenya in 1982 as a building society to serve the 'unbanked' and to provide products and services that economically empower its customers. It is now the largest bank in East Africa in terms of customer base, with about 3.4 million account holders in Kenya and Uganda. The bank currently opens around 3,000 new accounts each day. Equity Bank's diverse range of loan products are targeted to specific needs including SME loans, microfinance and agribusiness loans. 70% of Equity Bank's customers have never previously held a bank account. CDC's fund manager Helios provided an investment for further growth for Equity Bank, in particular for regional expansion and consolidation with other microfinance institutions. Equity Bank recently acquired Ugandan Microfinance Ltd and has opened a branch for microfinance services in Southern Sudan. Equity Bank has won numerous awards for innovation and service delivery including Best Microfinance Institution in Africa in 2007 by Micro Capital and the Financial Times/ IFC Sustainable Banking Award for Africa and the Middle East in 2009.

Ecobank, with an investment from CDC's fund manager ECP, was the first privately-owned regional commercial banking institution in West Africa. Since it launched its first subsidiary in Togo in 1988, Ecobank has grown to be the 15th largest banking group in sub-Saharan Africa.[69]

Banque Commerciale du Rwanda has pioneered the extension of banking services to previously unbanked sectors of the Rwandan population with an investment from CDC's fund manager Actis. Mobile banking vans and deposit accounts without minimum balance requirements have greatly extended its reach. Banque Commerciale du Rwanda supports the charity sector by funding hospital equipment and supporting widows, orphans and other survivors of the 1994 genocide. Actis has worked with Banque Commericale du Rwanda to improve corporate governance, staff training and internal controls. The bank has implemented CDC's and Actis' business principles for responsible investment in its credit policy. Actis also helped the bank to develop an anti-money laundering policy and to recruit staff with the right skills.

CDC's largest investments in financial services[5]

£37m DFCU, Uganda
Diversified financial services[34]

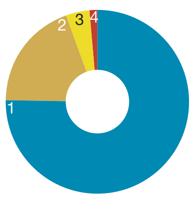
£32m Diamond Bank, Nigeria
Commercial banks[36]

£22m Alexander Forbes, South Africa
Diversified financial services[80]

£10m National Stock Exchange of India, India Capital markets[47]

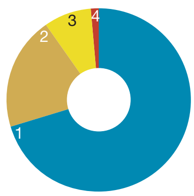
£8m Equity Bank, Kenya
Commercial banks[81]

Portfolio value by region (£m)



1 Sub-Saharan Africa **£114m**
2 Asia **£29m**
3 Latin America **£6m**
4 North Africa **£2m**

Number of companies by region



1 Sub-Saharan Africa **110**
2 Asia **31**
3 Latin America **13**
4 North Africa **2**

Microfinance

Microcredit loans can help previously unbanked people create sustainable sources of income and move up the economic ladder.

£25m CDC portfolio value

48 microfinance institutions in 26 countries

£10m invested by CDC in 2008

27,000 people employed in the 42 microfinance institutions which reported data in 2008[3]

US$25m in taxes paid by the 24 microfinance institutions which reported data in 2008[4]

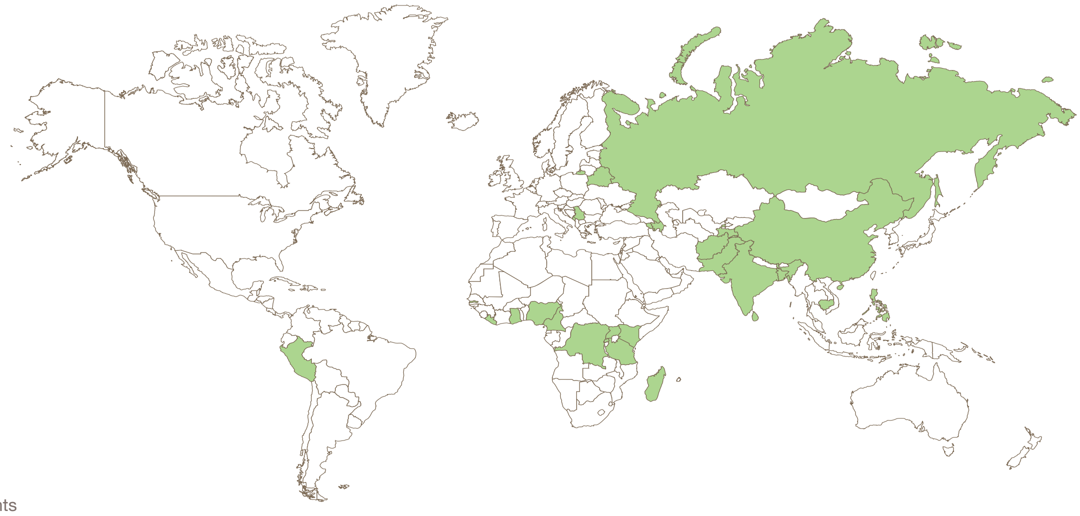
Microfinance institutions provide access to credit to the rural and urban unbanked in developing countries. Marguerite Robinson, a microfinance specialist, describes microfinance as "small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro-enterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas."[82] Microfinance promotes social entrepreneurship and the ability to develop sustainable businesses for people subsidising at the "bottom of the pyramid".[83]

For a number of years, CDC has provided capital to microfinance investment vehicles (MIVs) that have invested in underlying portfolios of microfinance institutions (MFIs) serving the poor globally. With its new investment policy for 2009-2013, CDC continues to support pioneering investment efforts in the microfinance sector in low income countries in sub-Saharan Africa and South Asia.

CDC's strategy for microfinance has been to invest in greenfield and early expansion equity for commercial MFIs, committing over US$50m to microfinance equity funds. Over 60% of CDC's equity investments in microfinance is for India, which remains a focus for CDC's microfinance investments. The remainder of CDC's microfinance portfolio has a global orientation. CDC has also committed U$30m to a microfinance local currency debt fund that directly addresses the issue of currency risk MFIs face in relation to foreign debt funding. CDC's goal is to continue to support the microfinance sector primarily through existing fund managers, with a target of committing up to US$120m in new capital to MIVs by 2011.

Microfinance remains a commercially viable investment opportunity which is strongly aligned with CDC's goals of high development impact. CDC's investments include 48 different underlying MFIs, with a total portfolio value of £25m. CDC is invested in these 48 MFIs through six microfinance equity funds and one local currency debt fund. 14 of the microfinance institutions where CDC's capital is invested are located in sub-Saharan Africa. 31 are in Asia, with 12 microfinance institutions supported by CDC's capital in India. CDC also supports three microfinance institutions in Latin

CDC's fund managers have microfinance investments in 26 countries



Investments

America, with a combined portfolio value of £2m. New investments by CDC's fund managers in microfinance institutions amounted to £10m in 2008.

A large number of people benefit from improved livelihoods from the loans provided by the microfinance institutions supplied by CDC's capital. CDC is currently working with its microfinance fund managers to receive more accurate data on numbers of borrowers, the percentage of these borrowers that are women and whether these borrowers live in rural areas that are traditionally underserved by financial institutions.

Some examples of CDC's investments in microfinance include:

- Lok Capital, which delivers equity capital and capacity building to some of the poorest households in India.
- ShoreCap International, a global investor in microfinance through which CDC has invested in BRAC Bank in Bangladesh and, more recently, in BRAC Bank in Afghanistan.
- Access, which aims to build a network of microfinance banks in Africa and Central Asia. Access has successfully established AccessBanque Madagascar, which is the first large-scale bank in Madagascar specialising in providing financial services for microenterprises. In just over two years, the bank has built a customer base of 13,800 depositors and over 5,000 borrowers, expanded to six branches and employs over 200 people. More than half of its borrowers are women.
- Advans, which was set up to establish a network of greenfield MFIs primarily in francophone Africa and Asia. Advans is a lead shareholder in AMRET in Cambodia which is one of the leading MFIs in the country serving over 200,000 borrowers with a total loan portfolio of US$54.5m.
- Catalyst, which was set up to build a network in Asia and Africa of highly efficient and rapidly growing MFIs primarily replicating the ASA microfinance model from Bangladesh.
- India Financial Inclusion Fund, which was set up to provide financing to Indian MFIs that are ready for expansion, with an emphasis on rural cities and towns with low microfinance penetration.

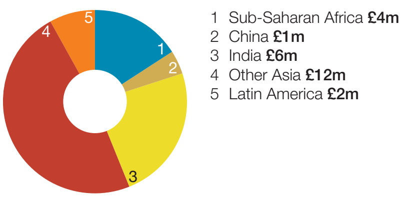
CDC's largest investments in microfinance institutions[5]

£2.5m MFBA, Azerbaijan[84]

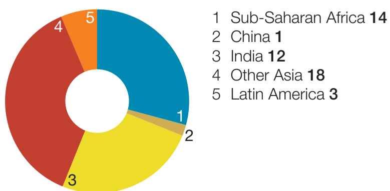
£2.1m Equitas Micro India Private Limited, India[85]

£1.9m A Little World Private Limited, India[86]

Portfolio value by region (£m)



Number of microfinance institutions with CDC investment by region



Brief industry sector reviews

Mining

£64m portfolio value
£17m invested in 2008
29 portfolio companies
16 countries with CDC investments
65,000 people employed in 21 portfolio companies which reported data in 2008[3]
US$350m in taxes paid by 19 portfolio companies which reported data in 2008[4]

Mining involves exploration for new natural resources and their subsequent extraction, both of which generally require a great deal of capital. Mining extraction often provides a large number of job opportunities, as well as substantial concession, tax and royalty revenues for governments.

The development of mining operations has spin-off benefits for local communities. These include development and improvement of infrastructure such as roads, power, water, and communications; provision of health and education facilities; as well as the creation of employment opportunities and training. Companies developing or operating mining businesses may become involved in local community projects such as building schools and hospitals.

Mining can inflict severe damage on the environment if appropriate safeguards are not followed. Mining jobs can also be dangerous for workers, who may be working without the benefit of proper employment contracts. Local communities can be adversely affected; sometimes entire villages are displaced by mining operations. Mining sites can also encourage local criminality and prostitution. Mining is furthermore prone to corrupt payments to governments by companies wishing to acquire new concessions or extend existing contracts.

Provided that the multiple challenges of mining activities from the environmental, social and governance (ESG) perspectives can be overcome, mining is a very promising sector for investment and an important vehicle for development and poverty alleviation.

CDC provides the Extractive Industries Transparency Initiative (EITI) through its fund managers investing in mining.

At East Africa Gold Mines a mine in Tanzania with an investment from CDC's fund manager African Lion and previous investment by Actis, implementation of international good practice standards across all areas of ESG matters was rigorous. Significantly, the mine's activities involved resettlement of parts of the local community which was successfully managed. The company's managing director was made an honorary local chieftain in recognition of his efforts. East Africa Gold Mines also contributed to the local Tanzanian community through the building of schools, hospitals and other infrastructure.

Industry & materials

£127m portfolio value
£67m invested in 2008
120 portfolio companies
26 countries with CDC investments
106,000 people employed in 101 portfolio companies which reported data in 2008[3]
US$244m in taxes paid by 91 portfolio companies which reported data in 2008[4]

Over the long term, industry accounts for a large and fast-growing part of developing countries' economies. Industry generates significant employment opportunities, including means for women to gain economic independence. Industrial production often provides relatively secure and well-paid jobs compared to traditional sectors like agriculture.

Developing countries, led by China and India, accounted for about 30% of the world's industrial production in 2008 compared to 16% in 1990.[91] One of the reasons behind the increasing share of developing countries in global industrial production is the shift of manufacturing locations, including assembly of final products, from more expensive production locations in Europe, the United States and Japan to developing countries with lower wage levels. As foreign and domestic companies in developing countries tap into the local labour markets for increased industrial production, wages are gradually driven up and the people in these countries become wealthier.

Until the recent global economic crisis, fast growth in both Chinese and Indian manufacturing sectors brought hundreds of millions of people out of the rural sector into wage paying jobs, lifting them and their families out of poverty. As domestic demand increases with income levels, it supplants exports as an engine of growth, further reinforcing the cycle of economic growth and development.

Dalmia Cement in India, with an investment from CDC's fund manager Actis, has seen turnover grow by 62% in three years, with major further capacity close to coming on stream. With the assistance of Actis, Dalmia has made major improvements in energy efficiency which has resulted in lower costs as well as lower greenhouse gas emissions. It won the prestigious Greentech Excellence Award in 2008 for its efforts.[92]

CDC's largest investments in mining[5]

£27m Mozal, Mozambique
Metals and mining[87]

£10m Mineral Deposits, Senegal
Metals and mining[88]

£10m Moepi Platinum Ltd, South Africa
Metals and mining[89]

£8m Copperbelt Minerals, Democratic Republic of Congo
Metals and mining[90]

£5m Sinai Marble, Egypt
Metals and mining[61]

CDC's largest investments in industry & materials[5]

£17m Alstom Electrical Industries, South Africa
Industrials, commercial services and supplies[93]

£16m Savcio, South Africa
Industrials, commercial services and supplies[94]

£7m Ceylon Oxygen, Sri Lanka
Materials, chemicals[95]

£5m TEMA, India
Industrials, commercial services[96]

Agribusiness

£49m portfolio value
£25m invested in 2008
33 portfolio companies
20 countries with CDC investments
67,000 people employed in 23 portfolio companies which reported data in 2008[3]
US$179m in taxes paid by 19 portfolio companies which reported data in 2008[4]

Agricultural production, whether through large scale plantations or subsistence farming, still accounts for a major share of the economy and livelihoods in most poor countries. 34% of GDP and 64% of employment in low income countries, on average, are accounted for by agribusiness – including production, marketing, logistics, processing and distribution of food supply.[9] Much employment in agribusiness is, however, neither well-paid nor secure.

Given the right structures of land ownership and functioning markets, the key constraints for expansion of agricultural production are likely to include finance for the development of new companies and the implementation of new technologies. Attention to conservation, labour and working conditions and health and safety are essential to ensure that agribusiness and forestry minimise harm done to the environment and safeguard conditions for workers and communities. Sustainable agribusiness and forestry can have important benefits for climate change to counteract the release from industries of greenhouse gases.

In Kenya, Grain Bulk Handlers, where CDC is invested through Actis Agribusiness Fund, employs 175 skilled workers on a permanent basis and 750 contracted labourers per day, operating from Mombasa. The company provides logistics solutions for grain cargo transported within East and Central Africa. The company is widely considered to be the most efficient bulk grain handling facility in Africa, and is capable of a daily discharge rate from bulk grain vessels of over 10,000 tonnes. Grain Bulk Handlers is currently expanding its silo storage capacity to over 150,000 tonnes, which will bring many further employment opportunities for the local population.[97] The vision of the company's CEO is to make the port of Mombasa a hub for regional food trade as well as for emergency relief.[98]

Consumer goods & services

£152m portfolio value
£59m invested in 2008
119 portfolio companies
25 countries with CDC investments
211,000 people employed in 90 portfolio companies which reported data in 2008[3]
US$234m in taxes paid by 84 portfolio companies which reported data in 2008[4]

Domestic demand for all goods and services increases with income levels. In its October 2008 economic outlook report, the International Monetary Fund (IMF) forecasted that the gross domestic product (GDP) of emerging and developing economies, in purchasing power parity terms, would account for more than half of the global economy by 2013, up from 45% in 2008.[104]

The production of consumer goods and the provision of services are major sources of employment for large numbers of people all over the world, not least in poor countries. These opportunities apply to both men and women, with women often highly represented in service sector jobs. Livelihoods of large numbers of self-employed people are also sustained from small sales activities of consumer products.

The rapidly rising number of middle class households and youth across most of the developing world are benefiting from the increased availability of all kinds of goods and services. New retail outlets and malls allow firms to benefit from economies of scale and reduce prices. With increased local production and imports both from OECD countries and local neighbouring countries, the increasing numbers of consumers in developing countries are benefitting from increased choice and better quality of products of all types.

Deacons is a Kenyan retailer with an investment from CDC's fund manager Aureos, which has played an important role in moving sales of clothes and other consumer items from informal markets to retail stores. Deacons now sells clothing, footwear, accessories and homewares through 19 stores across Kenya, Tanzania and Uganda and is a large and growing tax contributor to the Kenyan public purse. By partnering with a breast cancer awareness non-governmental organisation (NGO) to introduce cancer screening alongside the female underwear departments in its retail stores, Deacons raised awareness of breast cancer and achieved a huge surge in the sale of brassieres. It now controls 80% of the Kenyan formal market for female underwear.

CDC's largest investments in agribusiness[5]

£10m Kilombero Valley Teak, Tanzania
Forestry[99]

£7m Grain Bulk Handlers, Kenya
Farming[100]

£6m Equatoria Teak Company, Southern Sudan
Forestry[101]

£5m Shuanghui International Holdings Ltd, China
Food processing[102]

£3m Thunnus Overseas SA France, Côte d'Ivoire
Food staples and retailing[103]

CDC's largest investments in consumer goods & services[5]

£20m Fuel Logistics, South Africa
Consumer, general[105]

£18m Regal Forest, El Salvador, Honduras, Guatemala and Nicaragua
Consumer, durables and apparel[106]

£16m UAC of Nigeria
Consumer, non durables[107]

£9m Ambow, China
Consumer, general[108]

£10m Xiabu Xiabu, China
Consumer, hotels, restaurants, leisure and travel[109]

Brief industry sector reviews continued

Healthcare

£55m portfolio value
£17m invested in 2008
26 portfolio companies
10 countries with CDC investments
42,000 people employed in 22 portfolio companies which reported data in 2008[3]
US$83m in taxes paid by 19 portfolio companies which reported data in 2008[4]

Access to basic and more sophisticated healthcare services is a crucial component of social and economic development. In 2007, less than half of births in South Asia and sub-Saharan Africa were attended by skilled healthcare staff, compared with 99% for high-income countries.[110] Poor health and malnutrition prevent children from attending school and from learning while there. The equivalent of more than 200 million school years are lost each year in poor countries as a result of ill health.[111]

Public health services fall way short of meeting the needs of the populations in most poor countries and more investment is critically needed in private sector healthcare suppliers. The private health sector has grown substantially in most emerging markets in recent years, with services to all income groups supplementing services provided by the public sector. Public private partnerships are increasingly emerging, with improved regulations, better licensing and quality controls.[9] The healthcare sector, including hospitals, other healthcare service providers and pharmaceutical companies, is also an important provider of high-quality jobs and tax revenues for local governments. Women often hold jobs in the healthcare sector, serving as nurses, doctors and research and development staff at pharmaceutical laboratories. Investments in the healthcare sector thus serve multiple reinforcing development goals.

Arch Pharmalabs is a pharmaceutical company in India with an investment from CDC's fund manager ICICI. For its new and expanding drug production facilities, Arch Pharmalabs is working to bring production standard in line with United States Food and Drug Administration (USFDA) standards, corresponding to the highest in the pharmaceutical industry, and to ensure that all operations are in line with top international environmental, health and safety practices. Whilst these changes have added significantly to production costs, Arch Pharmalabs considers this investment to be a more than justifiable expense, as it is now a producer of choice for a large number of global pharmaceutical companies. For example, Arch Pharmalabs provides intermediates for Pfizer's blockbuster drug Lipitor and produces active pharmaceutical ingredients for generic drugs for Sandoz, Glaxo SmithKline, Sigma Tau, DSM and Elan. During a meeting with CDC, Arch's CEO explained: "Bringing our production standards up to USFDA level adds about 50% to our costs. However, this is still only about 30% of what it would cost Pfizer to produce in Europe or in the United States. and we can price accordingly. We are getting new business as fast as we can acquire new production facilities and bring them up to international production standards".

Infrastructure

£80m portfolio value
£45m invested in 2008
42 portfolio companies
13 countries with CDC investments
14,000 people employed in 28 portfolio companies which reported data in 2008[3]
US$123m in taxes paid by 25 portfolio companies which reported data in 2008[4]

Transportation, telecommunication, real estate and other infrastructure assets are basic drivers for economic growth. Transportation infrastructure, including roads, ports, railways, airports and services are critical for domestic and international commerce. Expanding mobile telephony services require investments in communication infrastructure, extending the network of masts and base stations to rural and remote areas. Businesses in developing countries face a limited supply of quality and affordable office space, hindering efficient operations.

In sub-Saharan Africa, business losses due to deficient infrastructure are high, imposing uncompetitive cost burdens on local companies. Productivity of African companies is estimated to be 10 to 20% lower on average than comparable Chinese businesses, mostly due to increased costs imposed by poor access to energy, transportation and other critical infrastructure.[115] Lack of access to transport is also considered to be a key obstacle to private sector led economic growth in developing countries.[32] Roads in low income countries are often of poor

CDC's largest investments in healthcare[5]

£28m Paras Pharmaceuticals, India
Pharmaceuticals[44]

£7m Amoun Pharmaceuticals, Egypt[60]
Pharmaceuticals

£7m Harbin Partners, China
Pharmaceuticals[112]

£5m Sterling Addlife, India
Healthcare providers and services[113]

£4m Veeda Clinical Research, India
Biotechnology[114]

CDC's largest investments in infrastructure[5]

£17m Capital Properties, Tanzania
Real estate management[116]

£16m Bharti Infratel Indus, India
Telecoms infrastructure[45]

£14m Helios Towers, Nigeria
Telecoms infrastructure[117]

£9m ICH Properties Holdings Ltd, Ghana
Real estate management[118]

£5m Chongqing Real Estate Development Co Ltd (Yingli), China
Real estate management[119]

quality or impassable. It is estimated that the 53 countries defined as low income by the World Bank have just 239,000 kilometres of roads, whilst the 60 countries regarded as high income have 3.6 million kilometres.[74]

Infrastructure investment requirements in poor countries, along with the need for more efficient management of existing infrastructure, are generally well beyond what the public sector alone can afford. Goldman Sachs estimates that Africa's infrastructure bill, excluding water and sanitation, would reach a staggering US$1 trillion if current and future needs were to be met by 2050. In India, approximately US$160bn has been invested in infrastructure during the past five years. 25 to 30% of this amount represented investments by the private sector. The Indian government estimates a need for a further US$320bn to $500bn of investment in infrastructure by 2012 to support its growing economy.

Established in 2006, Helios Towers Nigeria is an independent operator of mobile phone tower sites throughout Nigeria. It builds and leases space on its towers to local operators, who in this way avoid the expense of developing and maintaining their own tower networks.

CDC's fund manager Helios has supported the expansion of Helios Towers in three separate rounds of financing and currently owns 27% of the business. Helios Towers currently has over 400 towers throughout Nigeria, with another 100 to be completed shortly. 500 more are planned for 2009. Helios Towers has best-in-class operations and maintenance practices by African standards. Each site has back-up power generators to ensure a constant electricity supply to the towers, which is crucial in a country where black-outs are still common. Constant power supply ensures that antennas provide service without interruption. Helios Towers' 99% uptime rate (compared with the current industry average of about 70%) ensures that the growing numbers of Nigerians that have access to mobile phones can use these for business and personal connections with less frequent cut-offs.

With the continued growth and increasing importance of mobile telephony in Nigeria and sub-Saharan Africa, Helios Towers is currently looking to expand its operations into other parts of Africa.

Cleaner technologies

£16m portfolio value
£6m invested in 2008
8 portfolio companies
5 countries with CDC investments
2,200 people employed in 5 portfolio companies which reported data in 2008[3]
US$4m in taxes paid by 5 portfolio companies which reported data in 2008[4]

Cleaner technologies are a fast growing investment sector, thanks to the increasing global awareness of the adverse impacts of human activity on the environment. In 2008, revenues from companies focused on clean energy, including solar power, wind power, biofuel, and hydropower, along with companies developing or marketing technologies to reduce pollution from other energy sources, grew from US$76bn to US$116bn. Total global investments in clean energy reached US$148bn in 2008.[120] Projected investments of US$630bn by 2030 is estimated to translate into about 20 million additional jobs in the renewable energy sector.[121]

The primary local energy resource of India and China is coal, the most polluting source of electricity when burned. Biofuels, wind power, hydro power and solar photo-voltaics can provide efficient and clean alternative sources of energy for poor or isolated communities, which have not previously been connected to traditional energy suppliers.

Affordable innovations aimed at cleaning sewage and industrial wastes, which are often discharged without treatment into open lots or waterways, can prevent damage to health and crops. Bringing such technologies within the reach of poor countries can contribute substantially to their sustainable development and improve the livelihoods of poor people.

Himin is a Chinese company with an investment from CDC's fund manager CDH which manufactures solar-powered water heaters. The technology is relatively simple and the product is affordable for most Chinese households. Himin is the largest producer of solar water heaters in China, with 9% of the market. The company is aiming to achieve 20 to 30% annual growth until 2015. This will involve doubling production capacity in the near term, which is currently 800,000 units per year. Himin's main plant in Dezhou is a showcase for solar technology. Its plant is ISO 9000 compliant, the international standard for quality management systems. The company has funded a vocational middle school, which specialises in solar energy.

CDC's fund manager CDH has had a long relationship with Himin, though its investment in the company occurred in 2008. CDH is helping Himin to tighten its internal controls and to strengthen its top management. With the substantial capital injection from CDH, Himin is well placed to consolidate its position in the Chinese market and eventually become a world leader in its sector. If it succeeds in doing so, it will have played a part in improving air quality in China.

CDC's largest investments in cleaner technologies[5]

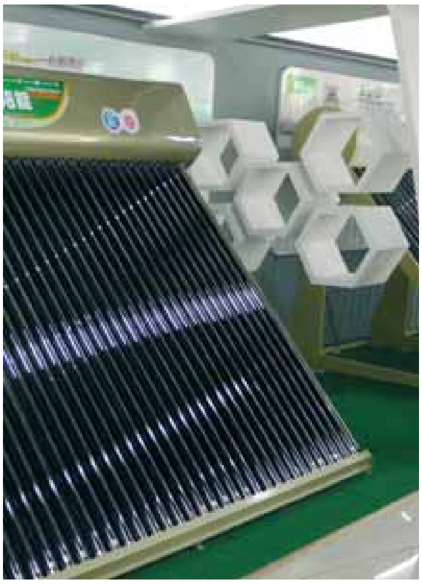
£10m Umeme, Uganda
Energy distribution[122]

£5m Moser Baer, India
Energy generation[123]

£2m DeQingYuan Agricultural Technology Co Ltd
Agriculture[124]

£2m MyFuel Ltd, Malaysia
Energy generation[125]

£1m PV Technologies India Ltd (a subsidiary of Moser Baer)
Manufacturing/industrial[126]



SME funds

Investments in emerging markets are predominately directed to larger businesses, where returns on invested capital are higher on an absolute scale and risks easier to assess. The lack of access to finance for SMEs is an important impediment to economic growth.

£57m CDC portfolio value*

170 portfolio companies in 28 countries*

£30m invested by CDC in 2008

18,000 people employed in the 132 portfolio companies which reported data in 2008[3]

US$84m in taxes paid by the 60 portfolio companies which reported data in 2008[4]

*Nine of Aureos' 89 portfolio companies have been excluded from the count as they have more than 1000 employees each. These nine investee companies employ 47,000 people among them.

It is easier for larger firms to come into contact with investors and management of large companies have more resources to demonstrate the type of information investors need for their due diligence before making an investment decision. Small and medium size enterprises (SMEs) find it far more difficult to attract capital. Investors often find the time and resources required to investigate an investment opportunity in an SME disproportionately challenging compared to the expected returns.

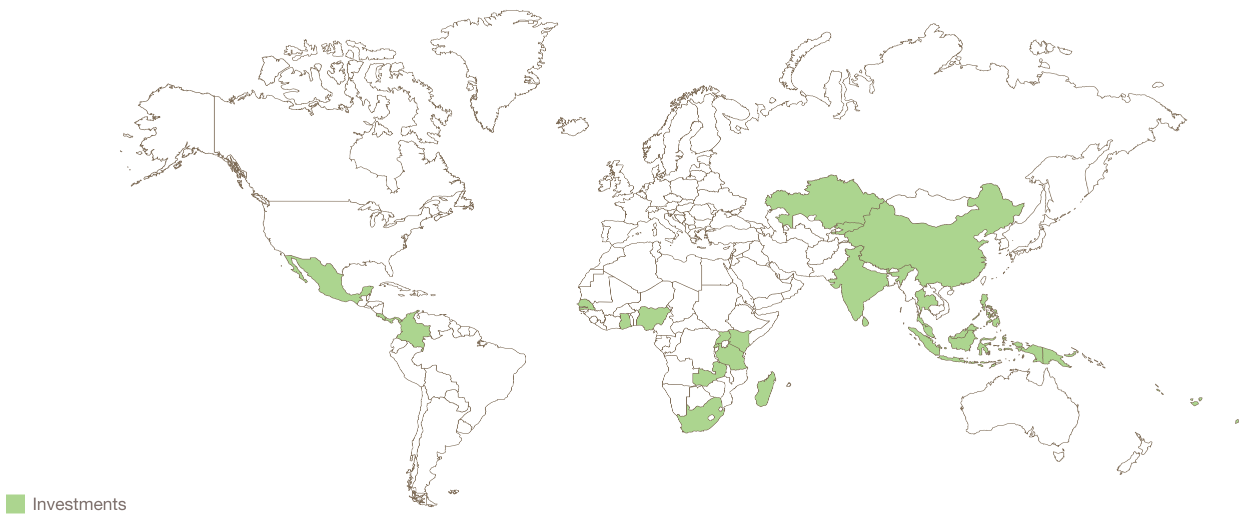
From a development perspective, the difficulty that SMEs experience in attracting capital is a lost opportunity, as SMEs bring important social and economic benefits. SMEs are tomorrow's large companies but require capital to invest in expansion to become engines of growth for their economies. SMEs in large numbers are the backbone of a diversified economy, offering a range of choice in products and services for consumers. The experiences of countries such as South Korea and Vietnam demonstrate that thriving SMEs are associated with rapidly growing economies.

SMEs in poor countries are more likely to provide employment opportunities for unskilled and semi-skilled labour than larger companies, which generally are able to choose among the better educated employment seekers. For most people that gain employment with SMEs, the alternative is casual labour. SMEs thereby provide a route out of the informal labour market and poverty. Where SMEs are supported by institutional investors such as CDC, they often provide more extensive training to their workforce, which benefits these workers directly and promote labour market mobility. SMEs frequently provide employment opportunities in regions where large companies do not find it worth their while to expand.

SMEs play a significant part in community development. A study conducted by the Small Enterprise Assistance Facility found that every dollar invested in small enterprises generated US$12 for the local economy.[127] SMEs, because of their roots in communities, are also a useful conduit for disseminating socially responsible behaviour, such as good business practice in relation to HIV/AIDS.

SMEs link different sectors of the economy together as a significant part of the supply chain for large businesses. Because of their smaller size, SMEs often demonstrate greater flexibility and capacity to innovate than large corporations.

CDC's fund managers have SME investments in 28 countries



SME investments

Aureos Capital Partners
21 Aureos funds totaling US$984m
US$296m committed by CDC to Aureos' funds
Regions covered: Asia, (Pacific, South, South-East, Central, China), Africa, (East, Southern, West), Latin America (Central and South)

Avigo SME Fund II
Investment region: South Asia
CDC commitment US$20m; total fund size US$125m

GroFin Africa Fund
Investment region: East, West and Southern Africa
CDC commitment US$30m; total fund size US$125m
GroFin East Africa Fund
Investment region: East Africa
CDC commitment US$3m; total fund size US$25m

Business Partners International
Kenya SME Fund
Investment region: Kenya
CDC commitment US$2m; total fund size US$14m

In China, CDC has committed to three venture capital funds, which invest seed capital for start-up businesses: Legend Capital, Qiming and Keytone.

CDC's investments in SME funds

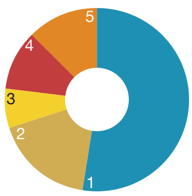
CDC is a longstanding and active investor in funds that specialise in investing in SMEs.

CDC's early contribution to SME development was in its pioneering work in establishing single country SME funds in the 1990s. CDC led the establishment of successful SME funds in Kenya, Zimbabwe and Zambia. Other SME funds that CDC set up were not equally successful from a financial perspective, including early funds in Ghana and Tanzania. However, these funds paved the way for a flow of successor SME funds and, more broadly, for the establishment of the private equity industry in Africa.

CDC's SME fund investments in the 1990s formed the platform for CDC's most ambitious contribution to SME investment in the emerging markets, which was the spin-out of Aureos in 2001 from CDC's investment team that focused on SME investments. The creation of Aureos was a joint venture with Norfund, the development finance institution of Norway. Aureos' staff came almost entirely from CDC and were initially responsible for managing the SME funds set up by CDC in Africa, Latin America and the Pacific. Aureos raised its first regional SME fund in 2002, the Aureos Central America fund. Aureos then progressed to establish further funds for East, West and Southern Africa, South Asia and South East Asia, thus providing SME investing across the emerging markets with much needed growth capital. In 2008, Aureos raised US$176m for a new Latin America fund and is currently engaged in fundraising for a pan-Africa fund, which is expected to provide US$400m in new financing for SMEs across the continent.

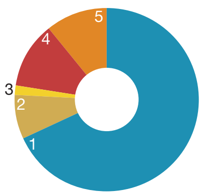
Following CDC's change of investment focus to that of fund-of-funds investor in 2004, CDC has been a founding investor in several other SME funds including Avigo in India and GroFin and Business Partners in Africa. These funds have together invested in 170 SMEs.[128]

SMEs by region by value (£m)



1 Sub-Saharan Africa **£30m**
2 India **£10m**
3 China **£4m**
4 Other Asia **£6m**
5 Latin America **£7m**

SMEs by region by number of companies



1 Sub-Saharan Africa **116**
2 India **13**
3 China **3**
4 Other Asia **20**
5 Latin America **18**

Aureos Capital Partners

Responsible investment practices lead to improvements in environmental and social practices for SMEs

From small beginnings in 2001, Aureos has raised 15 regional funds and now has in the range of US$1bn of funds under management. On the back of its SME focus and a solid commercial track record, Aureos has been able to attract over 70 institutional investors in addition to CDC and Norfund, including recently, Colombian pension funds.

Aureos has investments in over 50 countries, all over the developing world. The company employs 85 investment executives in 25 offices spread throughout Africa, Asia and Latin America. In the challenging field of SME investing in emerging markets, the creation of a strong and credible private equity fund manager in such a relatively short time is an impressive achievement.

Aureos has been able to build its investment business on a track record of careful and market-orientated investment in SMEs. Its commercial drive is complemented by a strong emphasis inherited from CDC on the appropriate conduct of business in developing countries with regard to environmental, social and governance (ESG) matters.

Aureos has integrated environmental and social criteria throughout its investment process, from due diligence to monitoring and reporting. Investment professionals are trained in responsible investment practice using standards derived from CDC and the International Finance Corporation (IFC). With Norfund and IFC, Aureos has instituted an SME Sustainable Opportunities Initiative, which provides financing for environmental and social improvements through concessionary loans and grants. The bulk of this facility is earmarked for projects in clean energy, energy efficiency and carbon emissions' reductions. The first use of this initiative was in a project at the Athi River Steel smelting and manufacturing plant in Kenya in 2008 to reduce factory emissions. Aureos is currently examining the possibility of extending these improvements to another African portfolio company.

Aureos has launched two significant initiatives to build capacity in improved management of SME businesses and to promote responsible SME practices with respect to HIV/AIDS. Aureos' training programme was established with the support of the government of India and Norfund and in partnership with a group of top Indian business schools to provide training for management in Aureos' portfolio companies. The courses in the programme focus on raising operational efficiency and improving governance. So far, over 150 managers from SMEs across Aureos' investment geographies have attended a series of seven courses. The benefits are clear: better management and, in the long run stronger businesses.

A large, important social initiative undertaken by Aureos relates to the promotion of HIV/AIDS policies and programmes for SMEs to encourage prevention and provide treatment for workers. In 2007, Aureos initiated research to identify best practices among its portfolio companies in sub-Saharan Africa with respect to HIV/AIDS and to find providers of services who could help SMEs in the battle against HIV/AIDS as well as counteract the other major pandemics malaria and tuberculosis. 14 best-practice companies were selected and 150 suitably qualified healthcare providers were found. A review of supply chain delivery systems was then conducted, focusing on how Aureos' portfolio company distribution networks could be leveraged to deliver healthcare goods and services to remote rural and high density urban populations. Six individual supply chains were identified through which condoms, malaria nets and over-the-counter drugs could be delivered inexpensively throughout East Africa. Aureos' effort is estimated to be able to reach over seven million people on a weekly basis. Aureos is currently working on extending its HIV/AIDS programme to its investee companies, starting with its portfolio in Africa.

Appendices

CDC's Investment Code

Performance indicators for CDC's Monitoring and Evaluation system

Appendix 1
CDC's 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.[1] It also includes an Exclusion List, which specifies businesses and activities in which CDC will *not* invest.[2]

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.

2. Objectives and policies

2a. 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.[4]

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;[5] 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:
  > where an activity is assessed to present significant environmental risks, work over time to apply the relevant IFC policies and guidelines,[6] 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 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. 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").
2 CDC's Exclusion List is compatible with those of the IFC and the EDFI Rome Consensus.
3 As referenced in this Investment Code and as may develop over time.
4 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 as may be amended from time to time.

2b. Social matters
2b.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 Organisation ("ILO") Fundamental Conventions[8] and with the United Nations ("UN") Universal Declaration of Human Rights.[9]

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;
- 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
- 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.

2b.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,[11] work over time to apply the relevant IFC policies and guidelines,[12] 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]

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.
6 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 and www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate.
7 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.
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/ilolex/english/docs/declworld.htm for the texts of these Conventions and a list of the countries that have ratified each of them.
9 See www.un.org/Overview/rights.html.
10 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
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. See www.ifc.org/ifcext/enviro.nsf/Content/ PerformanceStandards and www.ifc.org/ifcext/policyreview.nsf/Content/ EHSGuidelinesUpdate.
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"), see www.who.org.

2b.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;[14] and
  > consider social development contributions; and
- take appropriate actions to mitigate risks, ameliorate negative impacts, and enhance positive effects.[15]

2c. 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.
- 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:

- 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.

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. See www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards.

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

17 Including the 2005 UN Anti-Corruption Convention, see www.unodc.org/unodc/en/treaties/CAC/index.html; the 1997 OECD Anti-Bribery Convention, see www.oecd.org; and, as relevant, the 2005 Extractive Industries Transparency Initiative ("EITI"), see www.eitransparency.org; 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"), see www.iasb.org; and the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC"), see www.privateequityvaluation.com.

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]

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]

4. Management systems for CDC's fund managers[24]

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 sections 1 – 4 of this Investment Code.[25]

Where Fund Managers have effective control or significant influence over portfolio companies,[26] 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[27] 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;
- 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.

19 Including those specified in the 2004 Stockholm Convention on Persistent Organic Pollutants ("POPs"), see 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; and the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int; as may be amended from time to time.
20 As covered in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see www.ozone.unep.org, as may be amended from time to time.
21 As covered in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna ("CITES"), see www.cites.org, as may be amended from time to time.
22 This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
23 Except, in the case of tobacco production only, with an appropriate timeframe for phase-out.
24 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.
25 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.
26 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.
27 Further guidance on ESG management systems and assessments is provided in CDC's Toolkit for Fund Managers, see 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. ISO 14001 is a certifiable international standard to help organisations minimise how their operations negatively affect the environment, see www.iso.org.

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;[28]
- 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 five 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;
- 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;[29]
- 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.

28 A suggested format for ESG reporting is available on CDC's website, while other reporting formats could be acceptable. See www.cdcgroup.com.
29 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, www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards, www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelinesUpdate and www.iso.org.

Appendix 2

Performance Indicators for CDC's Monitoring and Evaluation system

CDC considers the **development outcome** of each fund investment as the aggregate performance of four parameters:

1. Financial performance

CDC measures each fund's ability to generate returns for investors and thereby attract commercial capital to poor countries.

The indicators for financial performance include:

- Net internal rate of return (IRR) of funds as compared to the investment target established by CDC at the time of investment.
- IRR for each realised exit.
- The total amount invested by the fund compared with the total amount committed to it, indicating whether the fund effectively managed to place all capital allocated to it.

The IRR target is recorded at the time of CDC's investment. Current valuations and the realised returns from any sales of portfolio companies are monitored every quarter, and compiled for CDC's annual financial results.

At the mid-point of a fund's investment life, CDC assesses its current investments and, based on current valuations and projected future business performance of the fund's portfolio companies, makes a judgment on how well a particular fund is performing against its investment target. This judgment is justified and recorded as a rating along CDC's six-scale rating categories from excellent to poor.

At the end of a fund's investment life, CDC evaluates the actual, realised returns of the fund compared to its investment target. At this point, CDC has information about the actual financial performance of the fund, as it will have sold all or most of its investee companies.

2. Economic Performance

CDC contributes to economic growth by investing in commercially viable businesses that generate employment and pay taxes. While financial performance measures returns for investors, economic performance captures the benefits of growing and profitable businesses for the wider economy.

CDC assesses the economic performance of each portfolio company by the following indicators, all of which are key parameters for a business to provide positive contributions to the broader local economy:

- Profitability and growth in profitability, as defined by earnings before interest, taxes, depreciation and amortisation (EBITDA).
- Turnover growth.
- Number of employees and growth in employment.
- Taxes and other government payments.

CDC seeks to record data on these indicators for each portfolio company on an annual basis.

For evaluations, CDC looks at the number of portfolio companies that showed positive numbers and growth over time in profits, turnover, employment and taxes paid during the investment life and rates the performance of each fund investment accordingly.

Small and medium size enterprises (SME) by definition have lower absolute numbers on the above parameters than large companies, but are as important as larger companies for economic growth. SMEs also face greater difficulties in attracting investment capital, and are therefore an important investment target for CDC. When CDC rates its evaluation results, positive consideration is given to SMEs by granting funds investing in such relatively disadvantaged companies one category higher than they otherwise would have been rated. Positive consideration is also given to funds with investee companies explicitly serving low income markets and populations, as they can often, at least initially, expect to make relatively lower profits by doing so but make important development contributions to these economically disadvantaged groups.

3. ESG Performance

For ESG performance, CDC asseses its fund managers' abilities to promote responsible business practices with respect to the environment, social matters and governance (ESG) to their portfolio companies and the actual ESG performance of portfolio companies against CDC's Investment Code.

At the date of investment, fund managers are to give each portfolio company a risk rating on ESG, indicating whether a company is considered to be high, medium or low risk from the environmental and social perspectives, and whether there are risks of business integrity issues and/or opportunities to improve corporate governance. CDC similarly records the quality of its fund managers ESG management systems when it invests with new funds, and works with fund managers to improve upon their practices with a particular focus on fund managers that invest in high-risk sectors from the ESG perspective.

Each year, CDC's fund managers report to CDC how their portfolio companies perform on ESG matters against the action plans for improvements that fund managers should establish at the time of investment.

Indicators include:

- Issues and improvements for portfolio companies in each ESG area (environmental management, management of social matters including labour and working conditions, health and safety, and other social matters, and governance, including business integrity and corporate governance).
- Quality of and improvements to the fund managers' own ESG management systems

For funds that are particularly focused on investing in environmentally positive companies, for example cleaner technology funds, CDC seeks to record portfolio companies with such environmentally beneficial products and services. CDC also seeks to capture information about corporate social responsibility programmes and corporate outlays for community development programmes.

For mid-point evaluations, fund managers' ESG systems are assessed along with the ESG performance of their portfolio companies. CDC notes any issues and discusses necessary improvements with fund managers as a result of these evaluations.

For final evaluations, usually 4-5 years after the mid-point evaluation, these matters are reviewed again to assess the extent to which improvements have been achieved.

4. Private sector development

For the final performance dimension, CDC seeks to capture how its investments benefit private sector development. This includes increased availability of capital for investment in poor countries; local capacity building to improve efficiency of capital markets; types of investments and exits to indicate efficiency of local capital markets; and funds and businesses that expands into multiple poor countries and regions. Furthermore, CDC seeks to capture wider enhancements to investment environments in terms of e.g., improved regulations, and, most importantly, enhancements to the sectors where portfolio companies operate which benefit consumers more broadly in terms of better access to improved quality goods, services and infrastructure.

Indicators include:

- Increased capital for investment in poor countries:
  > Amount of third party capital in funds (from development finance institutions (DFIs) and commercial investors)
  > Debt or other external financing raised by portfolio companies where such data is available

- Local capacity building:
  > Whether the fund manager is managing a private equity fund for the first time
  > Whether the fund manager is operating from an office in a developing country (or multiple local offices)
  > Whether the fund manager has been successful in raising a successor fund
  > Amount of commercial compared with DFI capital in successor funds

- More efficient capital markets:
  > Average holding period for portfolio companies
  > Type of investment, for example, growth capital, privatisation, expansion capital or start-up venture capital
  > Type of sale of the business, for example, a trade sale or a stock market listing

- Investment context:
  > Number of private equity firms in the local market at different points in time
  > Percent private equity investments as a share of GDP

- Improvements to the investment environment in terms of improved regulations, new, improved sector standards, etc.

- Improvements to the sectors where portfolio companies operate, broadly covering positive effects in terms of new or increased availability of improved quality goods and services, new infrastructure, new technologies, successful research and development, etc. Increased number of customers should be recorded wherever such information is available.

Information about third party capital and local capacity building is recorded at the time of CDC's investment, and when new investors decide to commit to an existing fund. Information about the other, broader parameters for private sector development are captured as part of CDC's evaluation work.

CDC Effectiveness: added value and catalytic effects

CDC also measures the extent to which CDC as an organisation is helping to attract commercial investors to poor countries and the added value CDC brings to fund managers in emerging markets by helping them shape their investment theses, recruit specialist staff, improve upon their ESG management systems or in other ways.

CDC records how it has worked to help new fund managers in various ways in the documents related to its investment decisions. CDC usually participates in advisory committees for its funds. As for all performance dimensions, an evaluation of CDC's effectiveness is conducted at the mid-point of a fund's duration and again at the end of each fund's life.

Footnotes

1 Low income countries are defined by CDC in accordance with the World Bank's 2006 categorisation as those countries with Gross National Income (GNI) below US$905 per capital per annum.
2 Middle income countries are defined by CDC in accordance with the World Bank's 2006 categorisation as those countries with Gross National Income (GNI) between US$905 and US$11,115 per capita per annum.
3 Employment data may be from different points in time. The data quoted in this report was provided by CDC's fund managers in 2008. Some data may refer to contracted or in other ways non-permanent workers.
4 Most of CDC's portfolio companies have reported corporate taxes paid but in some instances data reported referred to taxes payable. The data quoted in this report mostly refers to taxes paid to local governments in 2007 and was provided by CDC's fund managers in 2008.
5 Individual company investment values are quoted as per year end valuation 2008. Individual portfolio company valuations do not include CDC's forward foreign exchange contracts for sterling versus US$ fluctuations. All aggregate portfolio data, e.g., by region or sector, reflect hedged positions.
6 Dollar and Kraay, (2001), "Growth is Good for the Poor", Policy and Research Working Paper, the World Bank.
7 Kraay, (2006), "When is Growth Pro-Poor? Evidence from a Panel of Countries", Journal of Economics, Vol 80, pp198-227.
8 "Global Monitoring Report" (2007), IBRD and the World Bank.
9 IFC "2008 Annual Report: Creating Opportunities".
10 www.unctad.org
11 www.fdi.net
12 www.oecd.org
13 Academic research indicates associations between economic growth and poverty reduction, though the extent of the association varies greatly according to country circumstances. See ODI, 2008, "Pro-Poor Growth and Development". Poverty reduction can not be constrained if the enabling social conditions for sharing the proceeds of growth are not in place, and may take many years to have a discernible impact.
14 Ray, Debraj (1998). "Development Economics". Princeton: Princeton University Press.
15 According to comparable World Bank statistics using 2005 Purchasing Power Parity and $1.25/day poverty line.
16 An association of more than 20 international commercial banks which provide finance for projects in emerging markets. See www.equator-principles.com
17 According to the Roll Back Malaria partnership, www.rbm.who.int
18 107 out of 681 companies, 12 of the companies covered by one of the evaluations were in a fully exited fund which accordingly are no longer part of CDC's current portfolio.
19 38 portfolio companies in India, six portfolio companies in China and 21 portfolio companies in other Asian countries.
20 The Best Practice and Development Committee, BPDC, which is composed of a sub-set of CDC's board members and is chaired by Professor Jonathan Kydd.
21 As explained in the section "CDC's new Monitoring and Evaluation (M&E) system", **development outcome** is a collective, judgment based rating of each fund's performance according to the four underlying performance dimensions financial performance, economic performance, ESG performance and private sector development.
22 The International Labour Organisation (ILO) "In search of a new indicator for labour market analysis: The labour dependency ratio and the labour dependency ratio+",
23 Companies in the industry and materials sector, excluding mining.
24 EBITDA is an acronym of Earnings Before Interest, Taxes, Depreciation and Amortisation, and is a common accounting measure of corporate profitability.
25 Excluding the seven microfinance funds in CDC's portfolio.
26 According to the Nigerian Communications Commission, www.ncc.gov.ng/index5.htm
27 World Bank website: "Regional brief sub-Saharan Africa", www.worldbank.org
28 Employment data was reported by 190 of CDC's 261 portfolio companies in sub-Saharan Africa during 2008. Data may be from different points in time. Some data may refer to contracted or in other ways non-permanent workers.
29 Tax data was reported by 100 of CDC's 261 portfolio companies in sub-Saharan Africa during 2008. Most of CDC's portfolio companies have reported corporate taxes paid but in some instances the data reported referred to taxes payable.
30 2008 statistics from the International Labour Organisation (ILO), www,ilo.org
31 "Doing Business 2009", World Bank and IFC publication.
32 Centre for Global Development: "Power and Roads for Africa", 2008.
33 Actis Energy Fund 1 54% shareholding in Songas; CDC 100% share of Actis Energy Fund 1.
34 Actis Africa Fund 1 60% shareholding in DFCU; CDC 100% share of Actis Africa Fund 1.
35 Actis Infrastructure Fund 2 100% shareholding in Empower; CDC 100% share of Actis Infrastructure Fund 2.
36 Actis funds 15% shareholding in Diamond Bank, CDC 93% share of Actis Africa 2, 26% share of Actis Umbrella Fund and 10% share of Canadian Investment Fund for Africa. CDC shareholding 6% through co-investment.
37 Data on growth/decrease in employment, turnover and EBITDA was available for 47 of the 54 portfolio companies in sub-Saharan Africa that were included in the evaluations.
38 Employment data was reported by 281 of CDC's 348 portfolio companies in Asia. Data may be from different points in time. Some data may refer to contracted or in other ways non-permanent workers.
39 Tax data was reported by 257 of CDC's 348 portfolio companies in Asia. Most of CDC's portfolio companies have reported corporate taxes paid but in some instances the data reported referred to taxes payable.
40 "2009 World Development Indicators", preliminary estimate as of November 2008, World Bank publication.
41 "2009 World Development Indicators", World Bank publication.
42 Department for International Development website: Country profile, India.
43 World Bank poverty statistics. See graphs at p.7 of this report.
44 Actis 63% shareholding in Paras Pharmaceuticals; CDC 12% share of Actis Emerging Markets Fund 3, 31% share of Actis India Fund 2, 20% share of Actis India Fund 3 and 91% share of Actis South Asia Fund 2.
45 AIF Capital Asia III 0.3% shareholding in Bharti Infratel Indus; CDC 10% share of AIF Capital Asia III, CDC shareholding <1% through co-investment.
46 Actis 87% shareholding in Teknicast; CDC 70% share of Actis Asean Fund 2. and 26% share of Actis Umbrella Fund.
47 Actis funds 1% shareholding in the National Stock Exchange of India; CDC 31% share of Actis India Fund 2 and 91% share of Actis South Asia Fund 2.
48 Data on employment growth / decrease was available from 38 of the 65 portfolio companies in Asia covered by the evaluations. Data on turnover growth / decrease was available from 49 of the 65 portfolio companies. Data on EBITDA growth / decrease was reported by 50 of the 65 portfolio companies.
49 Employment data was reported by 24 of CDC's 45 portfolio companies in Latin America. Data may be from different points in time. Some data may refer to contracted or in other ways non-permanent workers.
50 Tax data was reported by 22 of CDC's 45 portfolio companies in Latin America. Most of CDC's portfolio companies have reported corporate taxes paid but in some instances the data reported referred to taxes payable.
51 Actis Latin America Fund 1 30% shareholding in Regal Forest; CDC 100% share in Actis Latin America Fund 1.
52 International Financial Participation Trust debt investment in Nextel Brazil; CDC 27% share in IFPT.
53 CDC though International Financial Participation Trust 10% shareholding in Capsa Diadem, CDC 27% share in IFPT.
54 "World Development Indicators 2008", World Bank publication.
55 Employment data was reported by 19 of CDC's 27 portfolio companies in North Africa during 2008. Data may be from different points in time. Some data may refer to contracted or in other ways non-permanent workers.
56 Tax data was reported by 12 of CDC's 27 portfolio companies in North Africa during 2008. Most of CDC's portfolio companies have reported corporate taxes paid but in some instances the tax data referred to taxes payable.
57 The countries of North Africa and the Middle East are often grouped together as there are many socio-economic similarities between the countries in these regions. World Bank data is aggregated across this region.
58 International Labour Organisation 2008 statistics for the Middle East and North Africa regions.
59 Actis Africa Fund 1 has a shareholding in Orascom; CDC 100% share of Actis Africa Fund 1.
60 CVCI Africa Fund LP has a shareholding in Amoun Pharmaceuticals; CDC 100% share of CVCI Africa Fund LP.
61 Actis total 60% shareholding in Sinai Marble; CDC 93% share of Actis Africa Fund 2, CDC 26% share of Actis Umbrella Fund & 10% share of Canadian Investment Fund for Africa.
62 The World Bank, "Energy Access", www.worldbank.org
63 Jamal Saghir, director for energy, transport and water at the World Bank as quoted in a Reuters article; "Africa needs US$31bn a year for energy".
64 www.songas.com
65 Global Environment Fund: "2008 Annual Environmental and Social Performance Report".
66 Actis has a shareholding in WSP Holdings Ltd; CDC 40% share of Actis China Fund 2 and 26% share of Actis Umbrella Fund.
67 Actis 35% shareholding in Gulf of Guinea Energy Limited; CDC 93% share of Actis Africa Fund 2, 26% share of Actis Umbrella Fund and 10% share of Canadian Investment Fund for Africa.
68 According to data from the Indian mobile telephony industry organisation Cellular Operators Association of India, or COAI.
69 "Global Capital, Local Impact: Facilitating Africa's Development One Company at the Time", ECP Private Equity, 2008.
70 African Capital Alliance 3% shareholding in MTN Nigeria; CDC 33% share in CAPEM and 17% share in CAPE II.
71 Helios Investors 15% shareholding in Africa Tel, Angola; CDC 20% share in Helios Investors.
72 Baring India Private Equity Fund III 5% shareholding in MphasiS Limited; CDC 9% share of Baring India Private Equity Fund III.

73 International Financial Participation Trust debt investment in Nextel Brazil; CDC 27% share in IFPT.
74 UNDP; "Creating value for all: Strategies for doing business with the poor" (July 2008).
75 DFID; "The Impact of the Financial Sector on Economic Development" Studies in Comparative International Development (SCID), 2007, and "The Importance of Financial Sector Development for Growth and Poverty Reduction", 2004.
76 www.act.is
77 www.dfcugroup.com
78 www.diamondbank.com
79 www.alexanderforbes.co.za
80 Actis 12% shareholding in Alexander Forbes; CDC 93% share of Actis Africa Fund 2, 100% share of Actis Africa Empowerment Fund, 26% share of Actis Umbrella Fund and 10% share of Canadian Investment Fund for Africa: Ethos Private Equity Fund V LP.
81 Helios Investors LP 25% shareholding in Equity Bank, CDC 20% share of Helios Investors LP.
82 Robinson, Marguerite S, "Microfinance: the Paradigm Shift from Credit Delivery to Sustainable Financial Intermediation", in Mwangi S Kimenyi, Robert C Wieland and J D Von Pischke (eds), 1998, "Strategic Issues in Microfinance", Ashgate Publishing: Aldershot.
83 The 'bottom of the pyramid' is a common reference for the largest, and poorest socio-economic group. In global terms, this is the four billion people who live on less than US$2 per day, typically in developing countries.
84 Minlam Microfinance Offshore Fund debt investment in MFBA; CDC 49% share in Minlam Microfinance Offshore Fund: Access Bank debt investment in MFPB, CDC 16% share in Access Holdings AG.
85 India Financial Inclusion Fund debt investment in Equitas Micro India Private Limited; India, CDC 35% share of India Financial Inclusion Fund.
86 India Financial Inclusion Fund debt investment shareholding in a Little World Private Limited; CDC 35% share of India Financial Inclusion Fund.
87 Actis Assets Fund 1 debt investment in Mozal; CDC 100% share in Actis Assets Fund.
88 Actis Africa Fund 2 6% shareholding in Mineral Deposits; CDC 93% share of Actis Africa Fund 2: Canadian Investment Fund for Africa 2% shareholding in Mineral Deposits Limited; CDC 10% share of Canadian Investment Fund for Africa: African Lion 22% shareholding in Mineral Deposits Limited; CDC 16% share of African Lion 2: ECP Africa Fund II 5% shareholding in Mineral Deposits Limited; CDC 9% share of ECP Africa Fund II.
89 Actis Empowerment Fund debt investment in Moepi Platinum Ltd; CDC 100% share of Actis Empowerment Fund.
90 Actis Africa Fund 3 4% shareholding in Copperbelt Minerals: CDC 35% share of Actis Africa Fund 3: Actis Emerging Markets Fund 34% shareholding in Copperbelt Miinerals; CDC 12% share of Actis Emerging Markets Fund 3: African Lion 1 0.1% shareholding in Copperbelt Minerals; CDC 27% share of African Lion 1: African Lion 24% shareholding in Copperbelt Minerals; CDC 16% share of African Lion 2: African Lion 3% shareholding in Copperbelt Minerals; CDC 19% share of African Lion 3: CDC 3% shareholding via co-investment in Copperbelt Minerals.
91 According to the United Nations Industrial Development Organisation (UNIDO) www.unido.org
92 www.dalmiacement.com
93 Actis Africa Fund 3 16% shareholding in Alstom Electrical Industries; CDC 35% share of Actis Africa Fund 3: Actis Emerging Markets Fund 3 18% shareholding in Alstom Electrical Industries; CDC 12% share of Actis Emerging Markets Fund 3.
94 Actis 25% shareholding in Savcio; CDC 93% share of Actis Africa fund 2, 100% share of Actis Africa Empowerment Fund, 26% share of Actis Umbrella Fund, 10% share of Canadian Investment Fund for Africa: Sphere Fund 1 Partnership 4% shareholding in Savcio; CDC 5% share of Sphere Fund 1 Partnership.
95 Actis 88% shareholding in Ceylon Oxygen; CDC 91% share of Actis South Asia Fund 2 and 26% share of Actis Umbrella Fund.
96 Actis 35% shareholding in TEMA; CDC 91% share of Actis South Asia Fund 2, 31% share of Actis India Fund 2 and 26% share of Actis Umbrella Fund.
97 www.act.is
98 www.grainbulk.com
99 Actis Agribusiness Fund 77% shareholding in Kilombero Valley Teak; CDC 100% share of Actis Agribusiness Fund.
100 Actis Agribusiness Fund has a shareholding in Grain Bulk Handlers; CDC 100% share of Actis Agribusiness Fund.
101 Actis Agribusiness Fund 77% shareholding in Equatoria Teak Company; CDC 100% share of Actis Agribusiness Fund.
102 CDH China Fund III 10% shareholding in Shuanghui International Holdings; CDC 5% share in CDH China Fund III LP.
103 ECP Africa Fund III 21% shareholding in Thunnus Overseas AS France; CDC 23% share in ECP Africa Fund III.
104 www.imf.org
105 Actis 45% shareholding in Fuel Logistics; CDC 100% share of Actis Africa Empowerment Fund, 93% share of Actis Africa Fund 2, 26% share of Actis Umbrella Fund and 10% share of Canadian Investment Fund for Africa.
106 Actis Latin America Fund 1 30% shareholding in Regal Forest; CDC 100% share in Actis Latin America Fund 1.
107 Actis 10% shareholding in UAC of Nigeria: CDC 93% share of Actis Africa Fund 2, 26% share of Actis Umbrella Fund and 10% share of Canadian Investment Fund for Africa.
108 Actis funds 10% shareholding in Ambow: CDC 40% share of Actis China Fund 2, 51% share of Actis China Fund 3, 12% share in Actis Emerging Markets Fund 3 and 26% share of Actis Umbrella Fund.
109 Actis funds 51% shareholding in Xiabu Xiabu; CDC 40% share of Actis China Fund 2, 51% share of Actis China Fund 3, 12% share in Actis Emerging Markets Fund 3 and 26% share of Actis Umbrella Fund.
110 Global Data Monitoring Information System, the World Bank Group www.worldbank.org
111 Data from the World Bank www.worldbank.org
112 CITIC Capital China Partners Fund 1 16% shareholding in Harbin Pharmaceuticals; CDC 6% share of CITIC Capital China Partners Fund 1.
113 Actis funds 50% shareholding in Sterling Add-life; CDC 31% share of Actis India Fund 2, 91% share of Actis South Asia Fund 2, 26% share of Actis Umbrella Fund.
114 Actis 33% shareholding in Veeda Clinical Research; CDC 31% share of Actis India Fund 2, 91% share of Actis South Asia Fund 2, 26% share of Actis Umbrella Fund.
115 Global Economics Paper 174: "A Small Price to Pay: Financing Africa's Infrastructure", October 2008.
116 Actis 100% shareholding in Capital Properties; CDC 100% share of Actis Africa Real Estate Fund.
117 Helios Investors LP 15% shareholding in Helios Towers; CDC 20% share of Helios Investors LP.
118 Actis Fund 85% shareholding in ICH Properties Holdings Ltd; CDC 100% share of Actis Africa Real Estate Fund.
119 CMIA China Fund II 19% shareholding in Chongqing Real Estate Development Co Ltd; CDC 10% share of CMIA China Fund III.
120 "Clean Energy Trends 2008", The CleanEdge Report www.cleanedge.com
121 The International labour organisation (ILO), "Green jobs, Facts and Figures" www.ilo.org.
122 Actis 100% shareholding in Umeme: CDC 100% share of Actis Energy Fund 1.
123 CDC 2% shareholding in Moser Baer through co-investment.
124 Capital Today China Growth Fund LP 18% shareholding in DeQingYuan Agricultural Technology Co ltd; CDC 11% share in Capital Today China Growth Fund LP: Global Environmental Emerging Market Fund III 16% shareholding in DeQingYuan Agricultural Technology Co ltd; CDC 12% share of Global Environmental Emerging Market Fund III.
125 Kendall Court Mezzanine (Asia) Fund 1, LP 4% shareholding in MyFuel Ltd, CDC 30% share of Kendall Court Mezzanine (Asia) Fund 1, LP.
126 IDFC Private Equity (Mauritius) Fund II has a shareholding in PV Technologies India Ltd, CDC 6% share of IDFC Private Equity (Mauritius) Fund II.
127 "From poverty to prosperity: understanding the impact of investing in small and medium enterprises", published by the Small Enterprise Assistance Facility.
128 Nine of Aureos' 89 portfolio companies have been excluded from this count, as they employ more than 1000 employees. These nine large Aureos' investee companies employ 47,000 people among them.

Data disclaimer

Whilst we have used our reasonable efforts to ensure the accuracy of data used in this report, certain data has not been audited or independently verified. Most of the data has been provided to us by our fund managers. Fund managers and portfolio companies have reviewed the case studies specifically about them. Some fund managers, including Actis and Aureos, have commented more substantially on the report.

Data on employment and taxes paid has been received from many but not all of CDC's portfolio companies. We have received this data from the fund managers that have invested our capital (and the capital of others) in these businesses. Data may be from different points in time. Employment data may sometimes include contract workers and other non-permanent workers. Tax data mostly refers to corporate taxes paid in 2007 by CDC's portfolio companies, but may sometimes refer to taxes payable for 2008.

Data on employment and taxes paid, as with all other data, in this report save for audited financial data, should be read as indicative of magnitude rather than exact figures. We have therefore rounded all data in a conservative manner. We have avoided extrapolations, which would show estimated data for CDC's entire portfolio, in order to keep quoted figures as close as possible to the information we have received from our fund managers.

Unless otherwise stated the financial data and valuations contained in this report relate to the year ended 31 December 2008.

Any errors or omissions are regrettable but, as with any report based on extensive data received from third parties in developing countries, difficult to avoid entirely. CDC will continue to seek to improve its efforts to ensure data quality and enrich its knowledge management systems in future.

Fund managers

Global

Actis
www.act.is

Aureos
www.aureos.com

Cordiant Capital
www.cordiantcap.com

Global Environment Fund
www.globalenvironmentfund.com

Africa

Adlevo Capital
www.adlevocapital.com

Advanced Finance and Investment Group
www.afigfunds.com

African Capital Alliance
www.aca-web.com

African Lion
www.afl.co.za

Business Partners
www.businesspartners.co.za

Citigroup Venture Capital International
www.citigroupai.com

ECP Africa
www.ecpinvestment.com

Ethos Private Equity
www.ethos.org.za

GroFin
www.grofin.com

Horizon Equity
www.horizonequity.co.za

Helios Investment Partners
www.heliosinvestment.com

I&P Management
www.ip-mngt.com

Medu Capital
www.meducapital.co.za

Sociéte Générale Asset Management
www.sgam-ai.com

Sphere Holdings
www.sphereholdings.co.za

Travant Capital
www.travantcapital.com

Tuninvest
www.tuninvest.com

Vantage Capital
www.vantagecapital.co.za

Microfinance

Access Holding
www.accessholding.com

Advans
www.advansgroup.com

Caspian Capital Partners
www.caspianadvisors.com

CMIMC
www.catalyst-microfinance.com

Minlam Asset Management
www.minlam.com

Shorecap International
www.shorecap.net

Asia

AIF Capital
www.aifcapital.com

Centras Capital Partners
www.centrascapital.com

JS Private Equity
www.js.com

Kendall Court
www.kendallcourt.com

Lombard Investments
www.lombardinvestments.com

Navis Capital Partners
www.naviscapital.com

Saratoga Capital
www.saratogacapital.com

India

Ambit Pragma Ventures
www.ambitpragma.com

Avigo Capital Partners
www.avigocorp.com

Baring Private Equity Partners India
www.bpeindia.com

BTS Investment Advisors
www.btsadvisors.com

ICICI Venture
www.icici.venture.com

IDFC Private Equity
www.idfcpe.com

India Value Fund Advisers
www.ivfa.com

Kotak Mahindra Group
www.kotak.com

Lok Capital
www.lokcapital.com

New Silk Route Advisors
www.nsrpartners.com

Ventureast
www.ventureast.com

China

Capital Today
www.capitaltoday.com

CDH Investments
www.cdhfund.com

CITIC Capital
www.citiccapital.com

CMIA Capital Partners
www.cmia.com

FountainVest Partners (Asia)
www.fountainvest.com

Keytone Capital Partners
–

Legend Holdings
www.legendcapital.com.cn

Qiming Venture Partners
www.qimingventures.com

Tripod Capital International
www.tripodcapital.com

Latin America

Advent International Corporation
www.adventinternational.com

Altra Investments
www.altrainvestments.com

Nexxus Capital
www.nexxuscapital.com

Patria Banco De Negocios
www.bancopatria.com.br

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