Investment works

The UK's development finance institution

Sarah Champion MP
Chair, International Development Committee
House of Commons
London
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Dear Sarah

Thank you for providing CDC the opportunity to give evidence to the International Development Committee's inquiry into the "Philosophy and Culture of Aid" and for your follow-up letter of 16 April. Following Colin Buckley and Dolika Banda's appearance and the questions in your letter, we are writing with further information which we have grouped as: 1) measuring development impact; 2) gender investing; 3) CDC's workforce composition; 4) ODA funding; and 5) CDC's healthcare investments.

We would also like to reiterate the purpose of our work. Development finance is rooted in the ambitions of local communities – unlocking the energy and potential of entrepreneurs and providing livelihoods to millions. When asked by the UN, the people of developing countries put job creation in their top three demands. But our role goes beyond job creation - our mission is to help solve the biggest global development challenges, whether that's supporting the development of vital infrastructure projects or tackling the climate emergency. We do this by investing patient capital in sectors that can promote inclusive growth and innovation and mobilising private investment that would otherwise go elsewhere.

Our work – and that of other DFIs around the world – matters because traditional aid alone cannot meet the economic development challenge. The economy of Kenya, one of Africa's powerhouses, is roughly the same size as Glasgow's but supports a population fifty times greater. Foreign Direct Investment in Pakistan is over 80 times smaller per capita compared to the UK (2019). These economic challenges are stark and have been further set back by COVID-19. We also know that capital can play a powerful role in doing good - when investment rose in Bangladesh, poverty fell[1]. Capital that seeks intentional impact – the type of capital that CDC provides – can be life-changing.

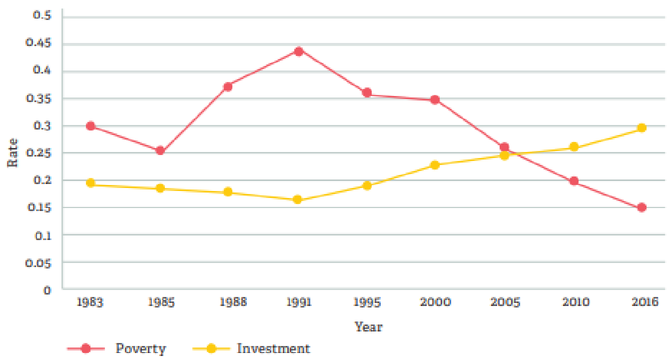

Figure 1: Poverty fell when investment rose in Bangladesh

This is the reason why economic development efforts should always form part of a wider development toolkit. Of course, not everything will go to plan. Running a business is one of the hardest things you can do. Doing it with intermittent power, in a poorly regulated environment, with a lack of social infrastructure can be nearly impossible. But it is our job to take those risks and, through long-term partnership, show that it is possible to invest sustainably, and deliver tangible positive outcomes for communities.

[1] CDC Insights, Investment and poverty reduction, March 2021 Investment-and-poverty-reduction.pdf (cdcgroup.com)

Today we are faced with the ever-greater economic development challenge of the COVID-19 pandemic. Capital outflows from Africa exceeded $5 billion in the first quarter of 2020. FDI into the region is predicted to have dropped 25 per cent over the year. When other investors stepped back, CDC stepped forward with a counter-cyclical three-pillar approach to Preserve, Strengthen and Rebuild. So far, we have invested over £900 million to tackle the economic crises. This includes over £400 million of systemic liquidity – an approach similar to the role Central Banks have played in wealthier developed countries to keep businesses afloat. Alongside this we have made targeted investments that are tackling the healthcare crisis – for example, helping support the rollout of the COVAX programme in Ghana through the financing (via guarantees) the supply of 600,000 syringes.

We hope the information provided in this letter is helpful. We have provided answers to your specific questions below. Further information can be found in our Annual Review 2019 and our Annual Accounts 2019, which can be found here and we have provided pdf copies by email. We look forward to speaking with you and the Committee Members again soon.

Yours sincerely

Sir Graham Wrigley **Chair, CDC Group plc**	**Nick O'Donohoe** **CEO, CDC Group plc**

CDC follow up response to: International Development Committee oral evidence session – 9 March 2021

Section 1: Measuring development impact

Q1: What does CDC mean by "development impact" and how do you measure it?

On page 10 and 11 of our Annual Review (and in detail from pages 48-55), we lay out extensively what we mean by and how we measure development impact. A summary is provided below.

Our goal is to support business growth and economic stability that will enable countries to leave poverty behind. We use a comprehensive framework aligned with the UN SDGs that measures impact at three levels: portfolio, sector and investment level. We also undertake an evaluation programme with FCDO to learn from our experiences (see answer to Q2).

Portfolio: Across our entire portfolio we measure:

- Job creation: 875,790 people, of which 42,130 were new hires in 2019
- Taxes paid: $3.31 billion paid to local governments in 2019 helping reduce aid dependency
- Mobilisation of private capital: in 2019 we mobilised $876 million of private capital equivalent to $41 for every $100 of our own commitments

Sector: We measure and monitor our impact at a sector level through sector level impact frameworks mapped to the SDGs and that are externally peer reviewed by leading experts, including: World Resources Institute; Overseas Development Institute; Imperial College; University of Cape Town.

- **Agriculture**: our investments sourced produce from 1.84 million farmers
- **Access to finance:** the financial institutions supported by CDC served almost 93 million customers in 2019
- **Infrastructure**: in 2019 our investments generated and distributed 57 terawatt hours - enough to power the UK for around two months.
    - For example, in 2019 we invested in three 50 MW wind farms in Pakistan. The projects are part of a programme of 12 wind projects across Pakistan totalling 610 MW, increasing the renewable energy generation capacity of the country by 50 per cent. The projects will avoid emissions equivalent to those of 130,000 people a year. They'll also add $19.1 million to the country's GDP and support the creation of 6,260 indirect jobs.

Individual investment level: Every investment is measured and assessed against the global best practice stand for impact investing designed by the Impact Management Project and aligned with Operating Principles for Impact Management. We identify, assess and track every investment against core metrics covering the following criteria: 'what', 'how', 'who', 'how much', 'risk' and 'contribution'. In addition, all investments are assessed against our ethical framework through the 'Code of Responsible Investing'. Recent analysis completed for ICAI showed 99 per cent of CDC deals (by value) rejected at Investment Committee in 2020 were on the basis of development impact weakness.

Examples of individual investments, include:

- **14Trees**, a CDC joint venture, has pioneered an alternative to clay-burnt brick saving on average 55 tonnes of carbon dioxide and 14 trees for every house built. They are now pioneering the 3D printing technology at scale to build affordable and low-carbon housing and schools in Africa, starting in Malawi. This technology will reduce the carbon footprint for building new homes by up to 70 per cent.

- **Ayana**, a renewable energy company operating in India, developed and incubated by CDC, has a plan to reduce India's CO_2 emissions by 3.3 million tonnes per year, to supply electricity to 750,000 customers and to create 10,000 jobs.

Q2. What actions has CDC taken to strengthen monitoring and evaluation of the development impact of its investments since ICAI published its review in March 2019?

Since ICAI's initial review of CDC we have worked hard to respond to its recommendations and have made significant changes to our investment and impact management processes as a result. In February 2021, we submitted evidence to ICAI's current follow-up review of CDC, which included a 36-page progress report and over 150 documents of supporting evidence. The ICAI Chief Commissioner welcomed CDC's open and proactive engagement with their follow-up review.

In summary, we have:

1. **Enhanced our investment process to embed development impact into all our decision-making:**

- Aligned our entire development impact and investment approach to international best practice via the Operating Principles for Impact Management (OPIM). The alignment of CDC's investment process to these principles was recently independently assessed and judged to be 'advanced.'
- Restructured our organisation around sectors, principally to strengthen and harmonise our sector-level approach to assessing development impact across the different financial products we offer. Published a major new independent evaluation of CDC's Financial Institutions portfolio and incorporated its findings into CDC's investment strategy.
- Published 10 new impact studies. These evidence-based reviews provide insight into how investment generates development impact in different sectors and contexts. Examples include: *Understanding the impact of solar home systems in Nigeria*; and *What is the impact of sustainable farming on smallholder suppliers in Ethiopia?*
- Launched an innovative new Joint-Impact Model following extensive collaboration with other Development Finance Institutions, such as the African Development Bank. A public good, the model will enable more consistent benchmarking of development impact metrics.
- Ranked the number one bilateral DFI in the Centre for Global Development's *Gender Equity in Development Finance Survey*.
- Launched our Climate Change Strategy, which is now recognised as best practice amongst DFIs and CDC has been approached by our peers to share our learning and advise on their approaches.

Q3. Please set out which critical industries CDC investment has helped to found and what wider benefits they have brought? Did they have any negative impacts?

CDC is a long-term investor, and we are proud of our record of developmental impact over the past 70 years. The impacts of our investments play out over many decades. Our role is to take risk that the private sector won't take, so not all investments are successful in their intention. There are always lessons to be learned and these are reflected in our policies today. Our current ethical framework, known as the 'Code of Responsible Investing', takes into account current international best practice including International Labour Organisation Core Conventions; UN Principles of Business and Human Rights; and the UK Modern Slavery Act.

We catalogue our historical impact our in CDC's history book "Pioneering Development" – copies of which can be provided to the Committee. Examples of contributions made to key industries include:

- **Agriculture.** The Kenya Tea Development Authority (KTDA), created by CDC, established the Kenyan tea industry in the 1960s as a major global player. KTDA became the world's third largest exporter of tea, supporting the livelihoods of 7 per cent of Kenyans. By 1983, every fourth cup of tea in Britain was Kenyan. KTDA is now a provider of services to more than 600,000 small tea farmers.

- **Mobile phones.** Celtel, a telecommunications company, received investment from CDC in the 1990s, at a time when others viewed the African mobile phone market as unimportant and too risky. When we exited the company, Celtel had more than four million customers across 13 African countries and the positive impact of the mobile phone industry in Africa has been profound.

The industries that we are hopeful we have played a pivotal role in (to be judged in the years ahead) include power generation, distributed generation including solar home systems, and volume guarantees for health.

Section 2: Gender investing

Q4. What is your estimate on the proportion of CDC investments which are gender-smart? How does CDC assess this and what measures do CDC Group use to evaluate the gendered impact of these investments?

CDC is a leader in gender-smart investing. The Centre for Global Development to rank CDC as the #1 bilateral DFI on gender equity in development finance.

CDC uses the now internationally recognised 2X Challenge criteria to evaluate the gender impact of its investments – the full criteria is available here: Criteria — 2X Challenge.

CDC started assessing deals with the 2X framework in 2018. Between 2018 and 2020 $430m of CDC investments have qualified as 2X gender-smart deals.

Since the launch of our gender strategy, significant work has been completed to mainstream gender diversity and inclusion across CDC's investment process to inform new commitments and investment management decisions. Activity includes:

- founding, along with other G7 members, the 2X Challenge where together we have mobilised over $4.5bn since 2018 against an initial goal of $3bn;
- developing new standards to help define 'gender lens' investing and helping establish the world's first global Gender Smart Investing Summit in London in 2018;
- establishing and chairing the Gender Finance Collaborative, bringing together 15 DFIs to help integrate 'gender smart' decision-making into our investment processes and operations;
- supporting Boardroom Africa to accelerate the number of women shortlisted and placed on Boards and Investment Committees across the continent.

Examples of gender lens investing include:

- PEG Africa, a solar home system company in West Africa, which has doubled its number of women in leadership from 22 per cent to 44 per cent since 2017 through introducing gender-sensitive recruitment strategies, flexible working hours, and encouraging the take up of paternity leave.

- Owendo Port in Gabon where our work has led to a pilot programme to train 50 women as heavy-duty drivers and gear operators in an industry that is dominated by men (just 2 per cent of port workers in Gabon are women).

Section 3: CDC's workforce composition

Q5. What is the total salary bill for CDC Group? What is the salary breakdown of male to female staff?

CDC publishes details of its salary bill in our Annual Accounts (available here). In the most recently published accounts (2019), wages and salaries totalled £37.6 million (p.81). Details on the number of employees within salary ranges are available on p.53. CDC's Remuneration Framework setting out our agreed philosophy is available here. Salaries are covered by the returns made on investments, not from development budgets. The document provides details on the approach we have taken to benchmarking salaries which includes using other DFIs and International Financial Institutions (IFIs) as a comparator group.

CDC's pay gap reporting is available here. Between 2018-19, the percentage of women in the top quartile improved markedly – up 11 points from 25 per cent to 36 per cent and women occupy 32 per cent of Director level roles since July 2020. We have a target to reach 34-36 per cent at Director level and above by 2023. Details of our gender pay gap are available here.

Q6. What is the male to female breakdown of staff in overseas locations and where are they based? & Q7. What is the male to female breakdown of staff in London?

The following table provides the breakdown of staff by gender in London and overseas:

Location	Employees	Female	Male
All	485	270 (56%)	215 (44%)
UK	420	239 (57%)	181 (43%)
Overseas	65	31 (48%)	34 (52%)

Whether in-country or in the London office, we are proud to have over 56 nationalities employed within CDC to provide diversity of thought and challenge. A breakdown of our staff by geographical office – correct as of March 2021 - is included below.

Location	Employees
Bangladesh, Dhaka	3
Egypt, Cairo	1
Ethiopia, Addis Ababa	1
India, Bengaluru	17
India, Mumbai	18
Kenya, Nairobi	7
Myanmar, Yangon	1
Nepal, Kathmandu	1
Nigeria, Lagos	4
Pakistan, Karachi	3
South Africa, Johannesburg	8
United Kingdom, London	420
Zimbabwe, Victoria Falls	1
Total	**485**

Note - As the UK's bilateral development finance institution regulated by the UK Financial Conduct Authority, the majority of our staff are based in the UK. London is the world's leading financial centre and our proximity to the City aids our role to mobilise investment into Africa and South Asia. Our operations teams are based in the UK as we are not a large enough company to have these spread between locations –

inefficiencies of coordination would outweigh any gain from any possible lower salary costs for these types of roles. We have, however, expanded our overseas network with a number of senior experts based in our markets. This means we have more staff overseas in more locations than comparable institutions.

Q8. What is the average salary of CDC group employees based in: a) London and b) overseas? & Q9. Please provide an overview of the type of roles that CDC group employees based overseas undertake. Are there key decision-making and management positions based overseas?

CDC publishes details of its salary bill in our Annual Accounts (available here).

There is no difference between the average salary of CDC employees based in London to those based overseas.

The majority of our roles overseas are senior positions. It makes sense to have these senior positions in the markets in which we are investing - their local knowledge is critical to making good investment decisions.

Most of our overseas staff are local to the country or region. We do not have any expensive long-term expatriate assignees, only short-term mobility assignments to boost career development and knowledge transfer.

Section 4: ODA funding

Q10. What are the reasons behind the reduction in funding in FY 2020-21? Did CDC receive a request from the FCDO not to draw down the full funds set out in the Main Estimate or has it been driven by changes to the investment climate? Has the global pandemic and associated economic impacts limited CDC's investment opportunities?

Q11. Has the reduction in funding had any impact on CDC staff numbers in a) London and b) overseas?
&
Q12. What implications does the reduction in funding for CDC Group have for the private sector in developing countries?

CDC is a long-term investor of patient capital. Our role is to act as a counter cyclical investor, investing more when the economic climate is difficult. Since the pandemic began, we have developed and executed a COVID-19 response, centred on preserving impact and strengthening at investment and market levels. So far, we have invested over £900m specifically targeted at tackle the economic crises. This includes over £400m of systemic liquidity – an approach similar to the role Central Banks have played in wealthier developed countries to keep businesses afloat. Alongside this we have made targeted investments that are tackling the healthcare crisis – for example, supporting UNICEF with a $50m purchase guarantee. This is allowing them to procure on behalf of low- and middle-income countries 1 billion syringes for the COVAX programme.

As outlined by the Foreign Secretary, CDC and senior FCDO Officials work in close consultation. This has been the case with CDC's response to the economic crisis created by COVID-19 to ensure we are delivering a strong countercyclical approach that is meeting the demand of the private sector in developing countries (outlined above). We have not yet received full confirmation of our allocation of capital for 2021 from the FCDO, but we will be taking a reduction in the capital we had expected to receive in calendar year 2021.

To note, the model of development finance means that investments can be funded from recycling returns from successful investments as well as from new ODA. CDC has been able to make £6.6 billion of new investments since 2013, with close to two-thirds (£3.8bn) being funded by its own returns rather than new ODA.

CDC has not had to reduce the numbers of staff, but the reduction and the impact on our existing portfolio performance has impacted future headcount growth.

Section 5: Healthcare investments

Q13. Please set out CDC's strategy for investments in private healthcare, how this relates to CDC's development impact targets and what measures you have at your disposal to divest from funds that do not meet those targets?

As outlined in section 1, CDC measures impact at 3 levels – portfolio, sector and individual. Our healthcare investments contribute to our portfolio level impact results through the jobs created and taxes paid. Private healthcare is a significant part of the healthcare systems in the geographies where CDC operates and is a major provider of jobs. In 2019, our investees served over 12.3 million patients and provided 87,970 jobs.

At a sector level, CDC has a healthcare sector strategy of which the healthcare impact framework was designed by Lord Darzi of Denham's team at Imperial College London. It ensures our new investments contribute to Universal Health Coverage and UN Sustainable Development Goal 3 by selecting to invest in organisations that either improve healthcare quality, expand access, enhance the workforce or contribute to the overall ecosystem.

At the individual investment level, CDC actively monitors against their impact thesis during our quarterly portfolio review meetings. Investments that are underperforming either for development impact or commercially are reviewed and action plans are put in place. Examples of the impact of our healthcare investments include:

- MedAccess – our not-for-profit social finance company, is providing a $50m guarantee for UNICEF to secure COVID-19 supplies for low- and middle- income countries. The products include diagnostic tests, infection control products and oxygen supplies. The innovative finance offered by MedAccess helps drive down the cost of lifesaving medical equipment. Its previous investments are reducing the price of HIV viral load testing in sub-Saharan Africa by up to 40 per cent and accelerating access to 35 million next generation anti-malaria bed nets.
- Penda Health provides affordable healthcare to 250,000 patients in poorer areas of Nairobi.
- Medical Credit Fund provides financing to small healthcare facilities across Africa, reaching over 10 million patients annually, of which 57 per cent are low income and 47 per cent women.
- At the onset of COVID-19 crisis, mPharma, a healthcare company which uses technology to increase access to pharmaceuticals, partnered with medical laboratories in Ghana, Nigeria and Zambia converting them to testing centres to rapidly increase the number of tests available. So far over one million testing kits have been procured and distributed.

CDC's preference is always to work with our partners, however, within our investment agreements there will be a range of formal mechanisms, including legal recourse. Any exit from an investment must be a responsible exit, allowing for both sustained impact and fair value for the UK taxpayer. This involves systematic consideration of the implications for sustained impact (ensuring it is embedded through the life cycle of the investment exit) and documenting and transparently disclosing any trade-off between financial and impact objectives, the risks to impact, and CDC's approach to handling these.