CDC Approach to Governance

Joint DFI Conference on Corporate Governance, Jeddah

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January 2011

CDC Approach to Governance: Contents

- Introduction to CDC
- ESG and the business case
- CDC's Investment Code on ESG
- CDC's Toolkit on ESG for fund managers
- Governance Tools in CDC's Toolkit on ESG
- Case studies of corporate governance in CDC's investment portfolio

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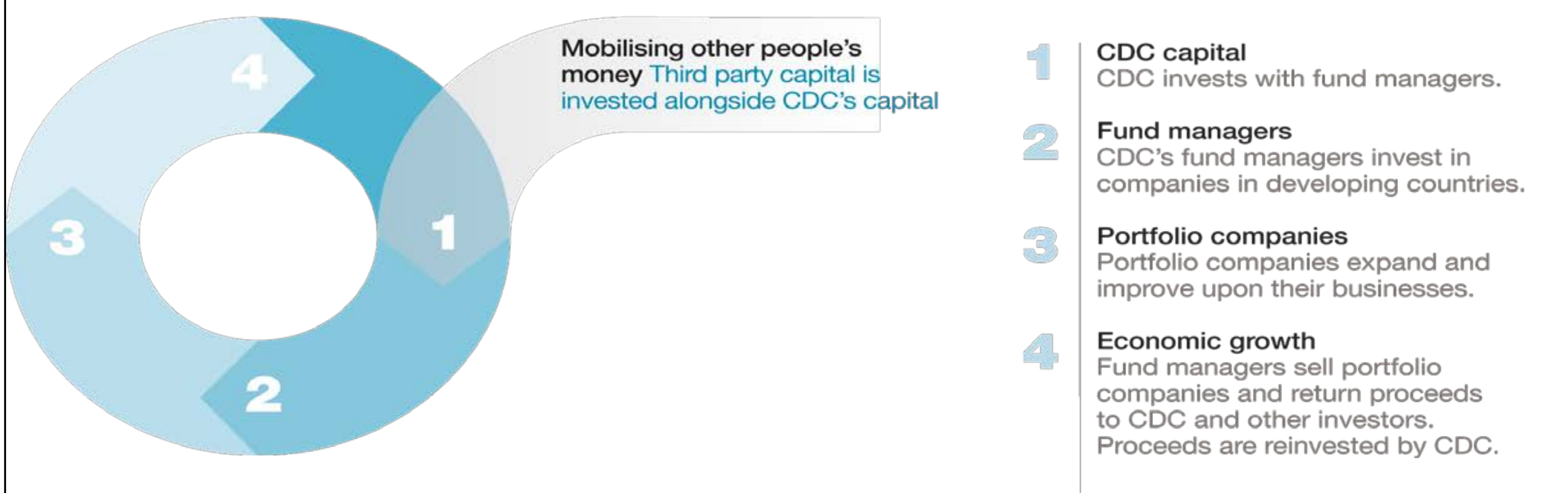
CDC is a development finance institution which invests through intermediaries in developing countries

CDC

- is a development finance institution (DFI) owned by the UK's Department for International Development (DFID)
- invests in promising businesses in developing countries through fund managers
- £1410 m in portfolio value:
  - 65 fund managers
  - 134 funds
  - 794 portfolio companies
- total returns of £207m in 2009:
  - average annual returns of 16% over the past five years
  - 6% ahead of the MSCI benchmark on a three year rolling basis

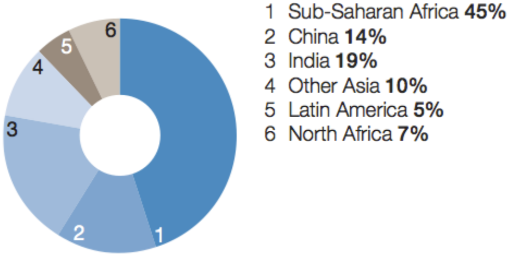
CDC's business model: capital for investment in growing businesses in developing countries



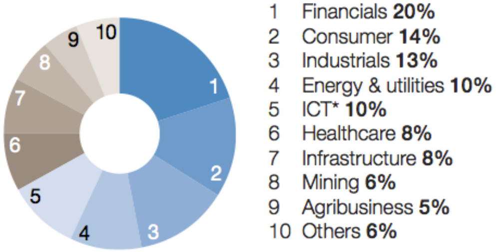
CDC's investments are focused on poor countries where growth capital is scarce

- Current CDC portfolio:
    - investments in 71 different countries throughout the emerging markets
    - more focused on sub-Saharan Africa (50%) and low-income countries (75%) than other DFIs
    - investments across all industry sectors

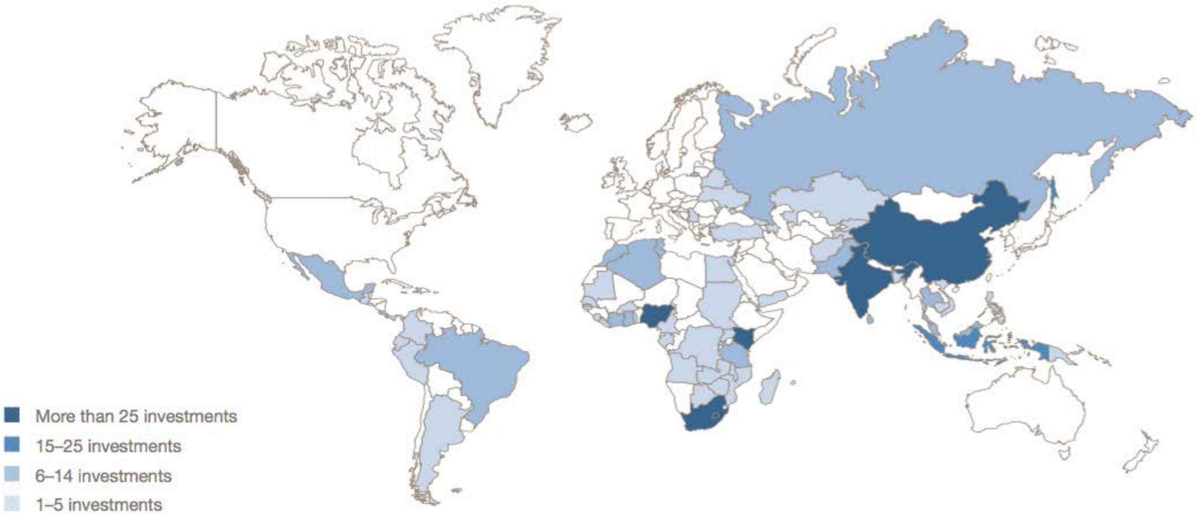
CDC portfolio value by region



CDC portfolio value by sector



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



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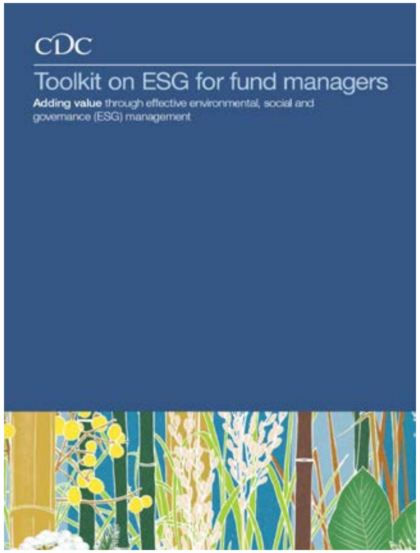
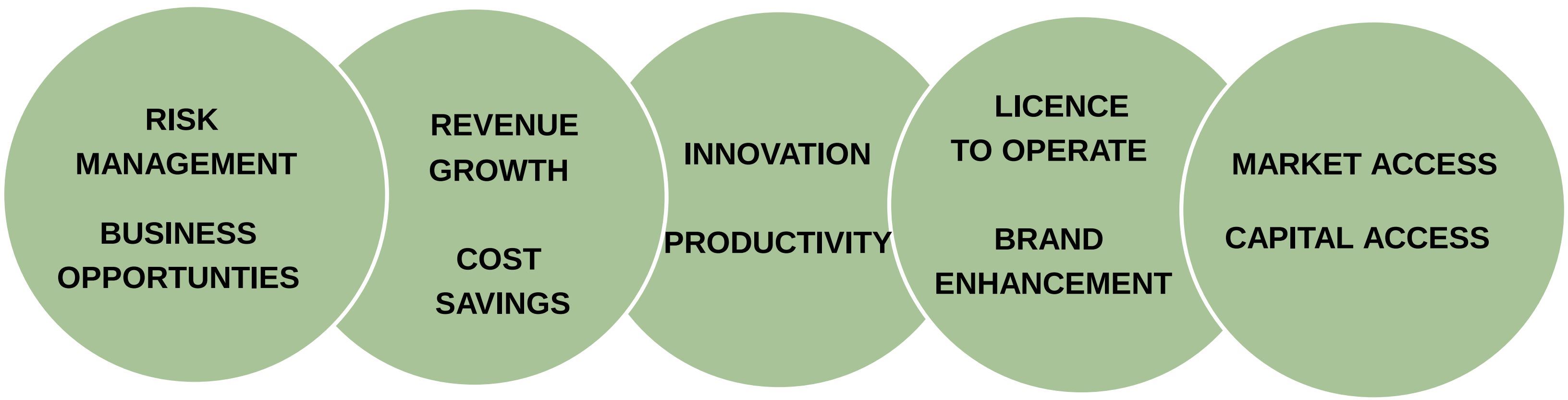
An introduction to integrated ESG analysis and management

- **'ESG'** is used to refer to **environmental, social and governance matters**
- Effective analysis of ESG risks and opportunities is important for a **thorough assessment of a company's value**
- Addressing ESG risks and realising ESG opportunities can **add value to portfolio companies**
- **ESG policies, guidelines and standards are converging** across the investment industry
- Common reference standards used by investors in emerging markets include the **IFC's Performance Standards and Environmental, Health and Safety (EHS) Guidelines** and the **OECD Principles of Corporate Governance**



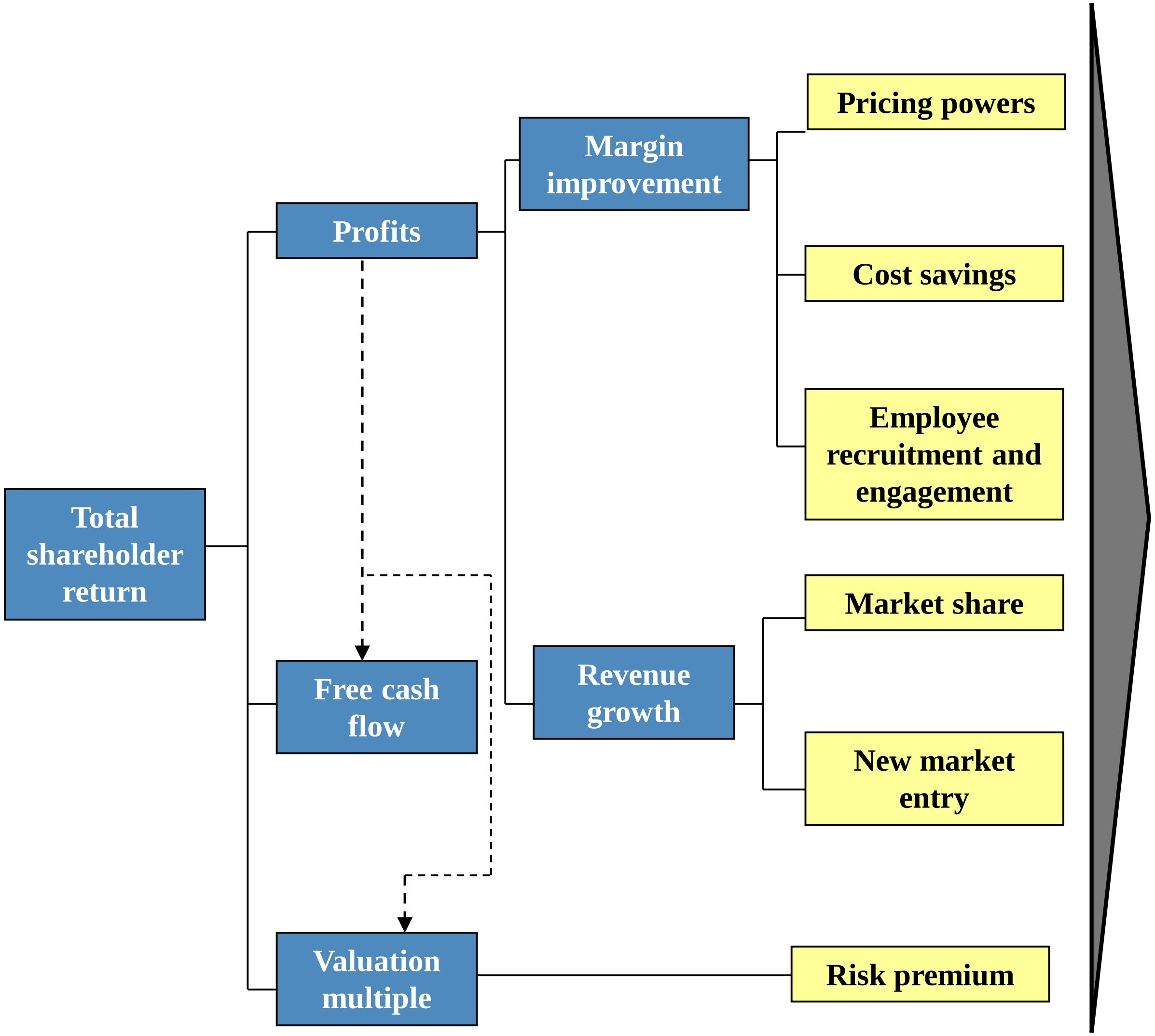
CDC's Toolkit on ESG provides practical guidance for fund managers in a manner consistent with international best practices and standards.

The business case for ESG analysis and management



Sound ESG analysis and management contributes to many of the most important value drivers for a business

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

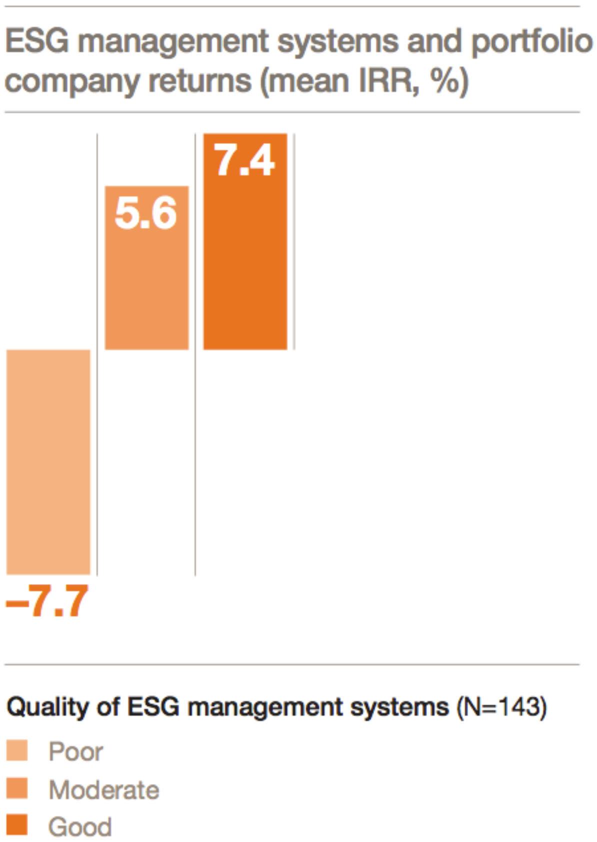


Potential impact of sound ESG management

- A stronger brand and greater pricing power
- Greater operational efficiencies
- More efficient use of resources
- Supply chain optimisation
- Lower costs
- Enhanced ability to attract, retain and motivate employees
- Greater employee productivity
- Improved customer loyalty
- Enhanced ability to enter new markets
- New potential sources of revenue
- Lower market, balance-sheet, and operational risks
- Lower costs of capital
- Greater access to capital, financing and insurance

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

CDC portfolio analysis shows that good ESG management systems correlate with 15% higher internal rates of return



Result: Correlation between good ESG management systems and 15% higher IRR

Explanation: Possibly generally better managed companies

Next steps: Improved data and further analysis

For fund managers: CDC ESG Toolkit for fund managers

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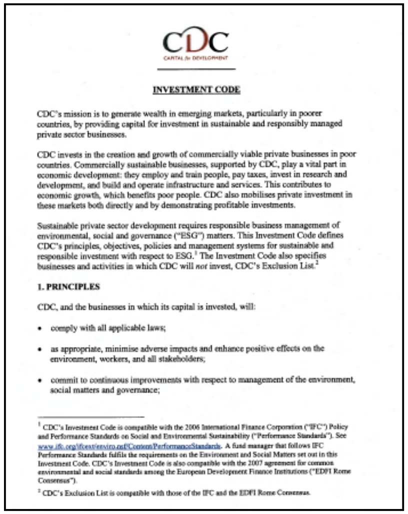
CDC standards and requirements: the Investment Code on ESG

- CDC's Investment Code defines CDC's principles, objectives, policies and management systems for sustainable and responsible investment with respect to environment, social and governance matters (ESG)
- The Investment Code also contains CDC's exclusion list for businesses and activities where CDC's capital will not be invested
- CDC's Investment Code emphasises CDC's objectives to:

  i) minimise adverse impacts *and* enhance positive effects
  ii) promote improvements over time.



CDC CAPITAL *for* DEVELOPMENT

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] The Investment Code also specifies businesses and activities in which CDC will *not* invest, CDC's Exclusion List.[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;

[1] CDC's Investment Code is compatible with the 2006 International Finance Corporation ("IFC") Policy and Performance Standards on Social and Environmental Sustainability ("Performance Standards"). See www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards. A fund manager that follows IFC Performance Standards fulfils the requirements on the Environment and Social Matters set out in this Investment Code. CDC's 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.

The Environment

Social matters

Labour & working conditions

Health & safety

Other social matters

Governance

Business integrity and good corporate governance

Exclusion list

CDC's Investment Code on Governance integrates good corporate governance and business integrity (1/2)

Objectives:

- To 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

Policies:

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

- comply with applicable laws and promote international best practice, 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

CDC's Investment Code on Governance integrates good corporate governance and business integrity (2/2)

Policies: (continued)

- prohibit the making of payments as improper inducement to confer preferential treatment
- prohibit contributions to political parties or candidates, where these could constitute conflicts of interest
- properly record, report and review financial and tax information
- promote transparency and accountability grounded in sound business ethics
- use information received only in the best interest of the business relationship
- clearly define responsibilities, procedures and controls with appropriate checks and balances in company management structures
- use effective systems of internal control and risk management covering all significant issues, including environmental, social and ethical issues

CDC's Investment Code on Governance incorporates key international reference standards

- 2004 OECD Principles of Corporate Governance
- 2004 UN Anti-Corruption Convention
- 1997 OECD Anti-Bribery Convention
- 2005 Extractive Industries Transparency Initiative
- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- International Private Equity and Venture Capital Valuation Guidelines (IPEV)

How they are used:

- International reference standards for:
  - governments to adopt as part of their local legislation
  - business to use as relevant

CDC's business integrity and compliance programme and polices are a key part of CDC's requirements for fund managers (1/3)

CDC integrates a focus on good corporate governance with strong business integrity standards and requirements.

CDC expects each of its fund managers to comply with all applicable anti-money laundering (AML) and "Know Your Customer" (KYC) legislation in respect of each:

i) investor in the fund; and
ii) portfolio company investment made by the fund

Fund managers should also adopt and implement a business integrity and compliance programme including business integrity policies, due diligence and monitoring of portfolio companies.

CDC's business integrity and compliance programme and polices are a key part of CDC's requirements for fund managers (2/3)

Fund managers' business integrity and compliance programmes should include :

- a code of ethics
- an AML policy
- a policy against terrorist financing
- an anti-corruption compliance programme
- a KYC compliance programme including character risk due diligence (CRDD)

Portfolio companies:

Fund managers should for each of their portfolio companies:

- review the adequacy of compliance policies;
- ensure adequate means of enforcement; and
- be satisfied that they will soon have adequate controls in place if not present at time of investment.

CDC’s business integrity and compliance programme and polices are a key part of CDC’s requirements for fund managers (2/3)

Business integrity due diligence:

- Fund managers should integrate business integrity elements into their due diligence
- Key due diligence principles should include:
    - identification of beneficial owners (sellers) and prospective co-owners of a portfolio company;
    - no engagement with anyone convicted of, or under investigation for, a serious criminal offence;
    - no engagement with anyone or any entity on an internationally recognised “black list”
    - full disclosure of integrity and reputational risks; and
    - monitoring of transactions integrity risks throughout the life of a project.
- **Fund managers should:**

Conduct background information searches

Identify politically exposed persons (PEPs)

Perform enhanced due diligence as appropriate

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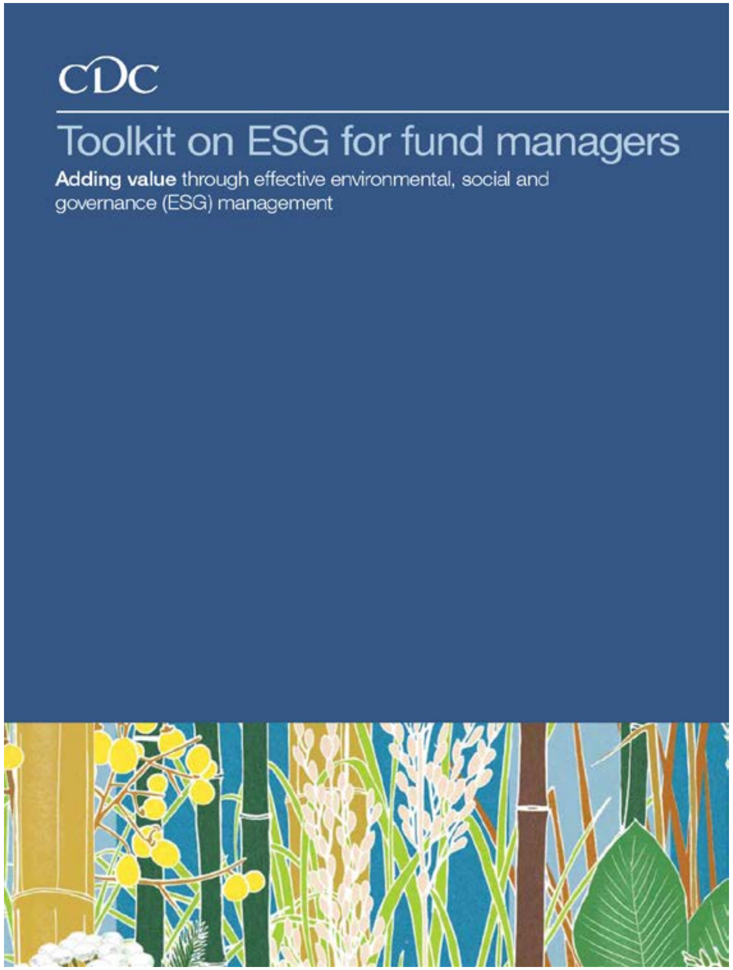
CDC's Toolkit on ESG for fund managers provides practical guidance on how to implement CDC's Investment Code and contains 14 Tools



Relevant to all stages of investment cycle:

Tool 1 Adding value through ESG improvements

Tool 2 ESG policies and guidelines

Tool 3 ESG considerations at each stage of the investment process

Tool 4 Questions to assess a fund manager's ESG management systems

Relevant to specific parts of the investment process:

Tool 5 Rating ESG risks

Tool 6 ESG due diligence

Tool 7 Environmental and social impact assessments

Tool 8 Questions to assess a company's ESG management systems

Tool 9 Investment paper and action plan for ESG improvements

Tool 10 Investment agreement

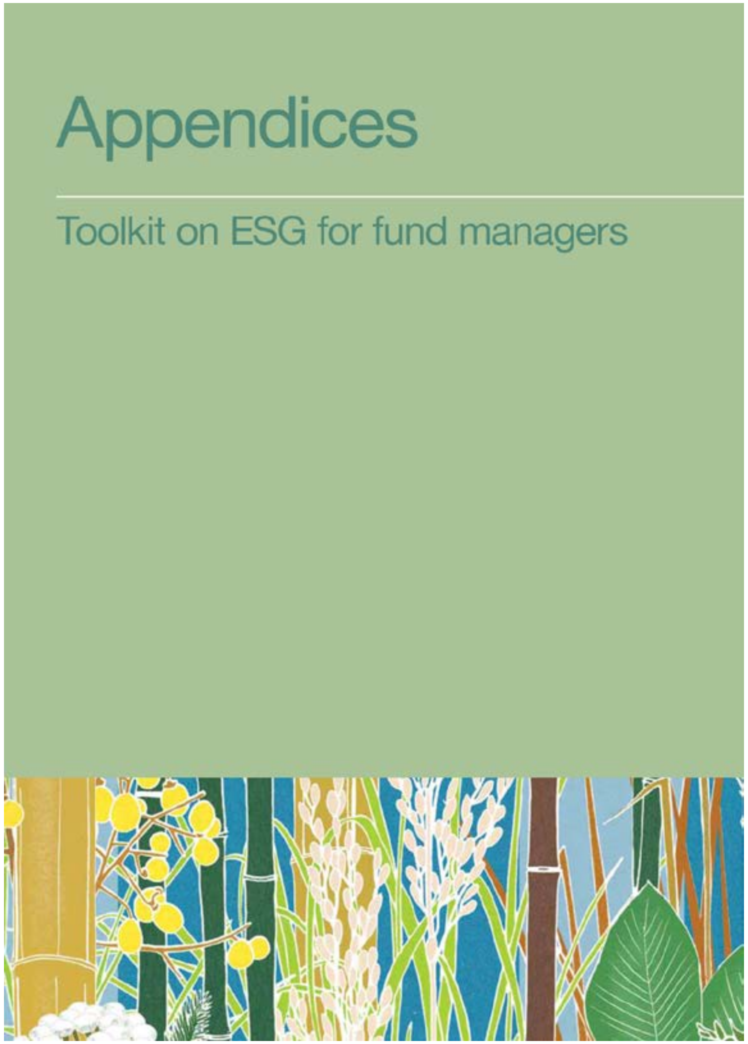
Tool 11 Investment monitoring

Tool 12 ESG reporting

Tool 13 Information for the public: annual reports and websites

Tool 14 ESG considerations for exits

The Toolkit has 10 Appendices with more specific guidance on selected ESG matters of practical use for investors



Appendices:

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

Appendix 5 of the Toolkit provides overviews of international ESG reference standards and conventions

The following standards and conventions are described in Appendix 5 of the Toolkit:

General

5.1.1. The IFC Performance Standards
5.1.2. The IFC Environmental, Health and Safety Guidelines
5.1.3. The IFC Environmental and Social Management Toolkit for Private Equity Funds
5.1.4. The Equator Principles
5.1.5. The UN Global Compact
5.1.6. The UN Global Reporting Initiative
5.1.7. The UN Principles for Responsible Investment
5.1.8. The US Private Equity Council Responsible Investment Guidelines
5.1.9 The EDFI Principles for Responsible Financing and Guidelines for Fund Investments

5.2 The Environment

5.2.1 The Montreal Protocol
5.2.2 The UN Framework Convention on Climate Change
a The Kyoto Protocol
b The Copenhagen Accord
5.2.3 The Stockholm Convention
5.2.4 The Rotterdam Convention
5.2.5 The Basel Convention
5.2.6 The Convention on International Trade in Endangered Species of Wild Flora and Fauna
5.2.7 The International Standards Organisation Standards
a ISO 9000
b ISO 14000

5.3 Social matters

5.3.1 The ILO Fundamental Conventions
a ILO Conventions 29 and 105
b ILO Conventions 138 and 182
c ILO Conventions 100 and 111
d ILO Conventions 87 and 98
5.3.2 ISO 26000
5.3.3 The Occupational Health and Safety Assessment Series (OHSAS) 18000
5.3.4 Good manufacturing practices in the production of food and pharmaceuticals

Governance

Business integrity

5.4.1 The UN Convention against Corruption
5.4.2 The UN Anti-Corruption Toolkit
5.4.3 The OECD Anti-Bribery Convention
5.4.4 Transparency International's Corruption Perception Index
5.4.5 The Extractive Industries Transparency Initiative
5.4.6 The Financial Action Task Force
5.4.7 The UK Proceeds of Crime Act and the UK Bribery Act
5.4.8 The UK Money Laundering Regulations
5.4.9 The US Foreign Corrupt Practices Act
5.4.10 The Business Anti-Corruption Portal

Corporate governance

5.4.11 The OECD Principles of Corporate Governance
5.4.12 The Walker Report
5.4.13 The International Private Equity and Venture Capital Valuation Guidelines
5.4.14 The International Accounting Standards Board and the International Financial Reporting Standards
5.4.15 The DFI Toolkit on Corporate Governance

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Corporate governance can be improved over time as illustrated in the progression matrix* below – simplified from the matrix in the DFI Toolkit

Elements of good corporate governance	Minimum	Good Practice	Best Practice
1. Commitment to good corporate governance	The basis formalities of corporate governance are in place, including: • A Board of Directors which meets regularly • Annual shareholders meetings • Shareholders recorded	Written policies addressing key elements of corporate governance: • Audit and control systems • Annual meetings of shareholders • Shareholders' rights, including minority • Ethics policy • Annual, Board approved, calendar of corporate events	• Corporate governance, accounting, auditing, internal controls and shareholder information practices and equivalent to those of leading public companies and in line with the country's voluntary code of best practices • The company has adopted codes of corporate conduct, ethics and ESG
2. Structured and functioning Board	• A Board of Directors ins constituted and meets periodically. • The Board deliberates independently of executive management and includes Directors who are either executives of the company, nor the controlling shareholder	• Board meetings are held according to a regular schedule. Agenda is prepared in advance. Minutes are approved. • Board composition (competencies/skill mix) is adequate for oversight duties • Audit committee of non-executive Directors established, at least 1 independent Director	• A majority of Board Directors are independent of management / owners • Audit committee is composed entirely of independent Directors • Board committees are established, including for nominations, remunerations, and ESG
3. Control and risk management	Adequate internal control and risk management systems are in place and periodically reviewed by independent external auditors.	Internal audit and risk management systems are in accordance with highest national standards.	Internal audit and risk management systems are consistent with highest international standards.
4. Transparency and disclosure	Adequate accounting and auditing systems are in place, including: • Quarterly financial reports approved by the Board • Annual financial statements audited by recognised firm	• Accounting and reporting according to highest international standards (IFRS or US GAAP). Reporting on ESG (UNGRI) • The annual audit is performed by a recognised independent external auditing firm. Financial statements are publically disclosed.	• Financial statements and other material information is disclosed on the internet in a timely manner. • Shareholder concentrations and controlling ownership are clearly disclosed.
5. Rights of minority shareholders & treatment of stakeholders	Annual shareholders' meetings are held. All shareholders are provided with all material information and a detailed agenda in advance	• Minority shareholders have right to nominate/appoint Board representatives) • Consultation policy is in place for company stakeholders	• Clear and enforceable policy and voting mechanism to protect minority shareholders' • Clear and enforceable policy to consult with and protect stakeholders • Full and timely disclosure of all material shareholders' agreements

*CDC and Rosencrantz & Co has adapted this matrix from IFC material and the work of a joint DFI working group on corporate governance.

CDC's Toolkit on ESG includes Tools on ESG management systems for fund managers and companies

The Toolkit provides guidance on how to integrate ESG management into its investment activities:

- Tool 3: ESG considerations at each stage of the investment process
- Tool 4: Questions to assess a fund manager's ESG management systems
- Tool 8: Questions to assess a company's ESG management systems

Tool 3

Initial screening → Due diligence → Investment → Investment monitoring → Exit

What to do?	*Toolkit reference:*
Assess whether potential investment is in line with the fund's exclusion list and ESG policies and guidelines.	*CDC's standards & requirements; Tool 2; Appendix 5*
Present the fund's ESG polices to management of potential investee company to clarify expectations	*CDC's standards & requirements; Tool 2; Appendix 5*
Assess opportunities to add value to potential investee companies.	*Tool 1*
Rate ESG risks	*Tool 5*
Ensure awareness of sector specific as well as country / regional ESG risks and opportunities, e.g., countries with weak employment legislation / enforcement	*Appendix 2 & 3*

Tool 4

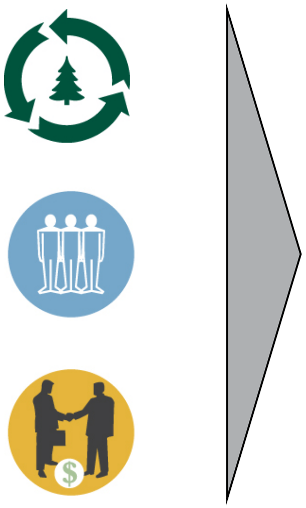
Policy and processes	Yes	No	Comments
1. Policy: Are there formal policies and systems to manage ESG?	☐	☐	________
2. Identifying opportunities: Does the fund manager proactively identify opportunities for ESG improvements for its investments?	☐	☐	________
3. Risks: Are investments formally assessed for risk and given an appropriate level of monitoring based upon this risk rating?	☐	☐	________
4. Critical risks: Can ESG considerations act as a block on a potential investment opportunity?	☐	☐	________
5. Action plans: Are formal action plans drawn up to address ESG deficiencies?	☐	☐	________
6. Monitoring: Are there any processes in place to manage/ monitor ESG risks and areas?	☐	☐	________

Roles and responsibilities	Yes	No	Comments
7. ESG resources: Does the fund manager have a designated ESG professional?	☐	☐	________
8. Top level responsibility: Has ESG responsibility been established at all levels including the fund's Investment Committee and governing body?	☐	☐	________
9. Specialists: Are specialist consultants/ external technical experts used to assess and monitor high risk investments? If so when and who?	☐	☐	________
10. Training: Does the fund manager provide ESG training for all relevant staff?	☐	☐	________

ESG performance management	Yes	No	Comments
11. Performance indicators: Are there key performance indicators in place to measure and track ESG performance at portfolio companies?	☐	☐	________
12. Serious incidents: Is there an established protocol for how to follow up serious incidents involving portfolio companies	☐	☐	________

A Tool (5) provides guidance on how to rate governance risks for investments alongside environmental and social risk ratings

- Fund managers should use a systematic ESG risk rating system
- The level of ESG risks determines the extent of ESG attention required for the due diligence
- High risk investments may require specialist assistance
- ESG management systems should be proportional to the company’s risk level.
- Risk ratings provide important information for the fund manager’s investment committee
- Risk ratings also indicate which portfolio companies require more attention and site visits during the investment monitoring



ESG risk ratings Category A-C High / medium / low

The recommended methodology for rating governance risks includes aspects of both business integrity risks and good corporate governance

- Governance include aspects of business integrity as well as good corporate governance.
- CDC's recommended risk rating methodology for governance risks starts with a business integrity risk rating, which is complemented by a risk rating from the corporate governance perspective.
- These two risk ratings combined make up the governance risk rating of a company.

Rating risks: Corporate governance		
Risk category	**Description of category**	**Minimum elements of good corporate governance**
Category A High Risk	A proposed investment is classified as Category A if the company **does not** have the minimum elements of good corporate governance.	• Basic formalities of corporate governance are in place, including: – a board of directors which meets regularly; – records of shareholders; and – annual shareholders meetings. • A board of directors is constituted, meets regularly and deliberates independently of executive management • Adequate internal controls and risk management systems, which are periodically reviewed by independent external auditors. • Adequate accounting and auditing systems, including: – quarterly financial reports approved by the board; and – annual financial statements audited by recognised firm. • Annual shareholders' meetings. All shareholders provided with all material information and a detailed agenda in advance of meetings.
Category B Medium Risk	A proposed investment is classified as Category B if the company **only has some** of the minimum elements of good corporate governance.	
Category C Low Risk	A proposed investment is classified as Category C if the company has the minimum elements of good corporate governance.	

Rating risks: business integrity		
Risk category	**Description of category**	**Examples**
Category A High risk	A proposed investment is classified as Category A if it is likely to have significant risks for corruption or other issues related to business integrity.	• Investments in countries classified as lower than 2 by Transparency International's Corruption Perceptions Index • Investments in countries classified 2-4 by Transparency International's Corruption Perceptions Index *and* – in sectors which involve large contracts, including with public sector entities or the government such as: construction, public works contracts, real estate and property development, oil and gas; or mining; – companies with significant state ownership interests; – privatizations; and/or – investments which use local agents or intermediaries or which involve Politically Exposed Persons (PEPs).
Category B Medium Risk	A proposed investment is classified as Category B if its likelihood of corruption or other issues related to business integrity are less than those of Category A investments but nevertheless a concern.	• Investments in countries classified as 2-4 by Transparency International's Corruption Perceptions Index in the following industries: heavy manufacturing, pharmaceutical and medical care, utilities, civilian aerospace, power generation and transmission, forestry, telecommunications and equipment and transportation and storage • Investments in countries classified as 4-7 by Transparency International's Corruption Perceptions Index and within the sectors and with the characteristics listed Category A above, for countries classified 2-4.
Category C Low Risk	A proposed investment is classified as Category C if it is likely to have low risk for corruption or other issues related to business integrity.	• Investments in countries classified as higher than 7 by Transparency International's Corruption Perceptions Index • Investments in countries classified as 3-4 by Transparency International's Corruption Perceptions Index in, e.g., the following industries: information technology, fisheries; and agriculture.

Combine the risk ratings for governance: business integrity and corporate governance

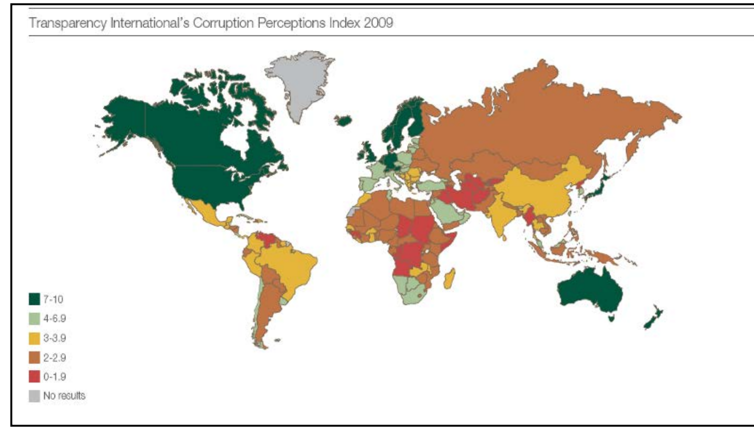
Corporate governance / Business Integrity	Category A High Risk	Category B Medium Risk	Category C Low Risk
Category A High Risk			
Category B Medium Risk			
Category C Low Risk			

The recommended methodology for rating business integrity risks uses country and sector rankings from Transparency International

- CDC uses Transparency International's Corruption Perception Index for a basic country business integrity risk classification.

- All investments in countries classified as lower than 2 are rated as high risk, as well as investments in certain industries and types of businesses or deals in countries classified as 2-4 including:

  - sectors which involve large contracts;
  - companies with significant state ownership interests;
  - privatisations; and / or
  - investments which involve politically exposed persons (PEPs).



Rating risks: business integrity		
Risk category	**Description of category**	**Examples**
Category A High risk	A proposed investment is classified as Category A if it is likely to have significant risks for corruption or other issues related to business integrity.	• Investments in countries classified as lower than 2 by Transparency International's Corruption Perceptions Index • Investments in countries classified 2-4 by Transparency International's Corruption Perceptions Index *and* – in sectors which involve large contracts, including with public sector entities or the government such as: construction, public works contracts, real estate and property development, oil and gas; or mining; – companies with significant state ownership interests; – privatizations; and/or – investments which use local agents or intermediaries or which involve Politically Exposed Persons (PEPs).
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Category C Low Risk	A proposed investment is classified as Category C if it is likely to have low risk for corruption or other issues related to business integrity.	• Investments in countries classified as higher than 7 by Transparency International's Corruption Perceptions Index • Investments in countries classified as 3-4 by Transparency International's Corruption Perceptions Index in, e.g., the following industries: information technology, fisheries; and agriculture.

The recommended methodology for rating corporate governance risks uses the minimum elements of good corporate governance from the DFI matrix (as simplified by CDC)

Good corporate governance reduces business integrity risks. The governance risk rating is adjusted based on a rating of whether the potential investee company has established minimum elements of good corporate governance.

Rating risks: Corporate governance		
Risk category	**Description of category**	**Minimum elements of good corporate governance**
Category A High Risk	A proposed investment is classified as Category A if the company **does not** have the minimum elements of good corporate governance.	• Basic formalities of corporate governance are in place, including: – a board of directors which meets regularly; – records of shareholders; and – annual shareholders meetings. • A board of directors is constituted, meets regularly and deliberates independently of executive management • Adequate internal controls and risk management systems, which are periodically reviewed by independent external auditors. • Adequate accounting and auditing systems, including: – quarterly financial reports approved by the board; and – annual financial statements audited by recognized firm. • Annual shareholders' meetings. All shareholders provided with all material information and a detailed agenda in advance of meetings.
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CDC's portfolio contains numerous examples of improvements in responsible investment and business practices

From CDC 2008-09 evaluation work covering 234 companies:

- 73% of portfolio companies had ESG issues at investment
  - 44% on environmental management
  - 44% from the social perspective
  - 36% in corporate governance
- 83% of portfolio companies made improvements to their ESG practices during the investment period
  - 45% on environmental management
  - 61% from the social perspective
  - 53% in corporate governance

CDC's Development Reviews from 2008 and 2009 contain lots of case examples on ESG from CDC's fund managers and their portfolio companies. See www.cdcgroup.com

Examples from CDC's portfolio illustrate how business success can be enhanced through systematic ESG analysis and sound ESG management

Fund managers should consider how each ESG factor can drive or contribute to different business success factors as per this matrix, provided in Tool 1 in CDC's Toolkit on ESG.

		ESG factors: improvements during the investment period						
		Environment		Social matters			Governance	
		Environmental standards & processes	Environmental products / services	Labour & working conditions	Health & safety	Other social matters	Business integrity	Corporate governance
Business success factors	Revenue growth and market access							
	Cost savings and productivity							
	Access to capital							
	Risk management and license to operate							
	Human capital							
	Brand value and reputation							

Source: *Developing Value: The business case for sustainability in emerging markets, Sustainability*, IFC and Ethos Institute, 2004. Adapted by CDC and Rosencrantz & Co

Case example: El Rashidi El-Mizan in Egypt improved its corporate governance and gave its fund manager a 35% IRR on the investment

Company

Egypt's leading producer of halawa and tahina - staple food products

Actis invested in 2002

ESG risk/opportunity: Improved governance to grow from family business to big company

ESG actions

Improved board with independent directors

Improved financial reporting

ISO and OHSAS compliance

ESG management systems and specialist

Results

Strong performance and business management

Improved market position – exports to 25 countries

Doubled production capacity

Exited at cost multiple of 4.4 and IRR of 35%

Applying the MEF case examples to the ESG / business success matrix

Business success factors	ESG factors: improvements during the investment period						
	Environment		Social matters			Governance	
	Environmental standards & processes	Environmental products / services	Labour & working conditions	Health & safety	Other social matters	Business integrity	Corporate governance
Revenue growth and market access							MEF
Cost savings and productivity							
Access to capital							MEF
Risk management and license to operate						MEF	
Human capital							
Brand value and reputation						MEF	MEF

Source: *Developing Value: The business case for sustainability in emerging markets, Sustainability*, IFC and Ethos Institute, 2004. Adapted by CDC and Rosencrantz & Co

Other governance case studies: Further examples of CDC's fund managers helping their portfolio companies to improve (1/2)

- **India:** One of CDC's fund managers has been instrumental in improving corporate governance at some of the larger companies in India. Although it is commonly believed that small companies require the most oversight, past scandals in India and other countries illustrate 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 assisted 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 control 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 institution 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.

Other governance case studies: Further examples of CDC's fund managers helping their portfolio companies to improve (2/2)

- **China:** A fund manager in China has achieved 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:** CDC's 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 has now set up and hosts an ESG index consisting of companies committed to high ESG standards, which is the first investable sustainability index in India.

- **Kenya:** An essential part of good corporate governance is to focus attention to 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."

Questions