CDC
Investment works

The ESG Dividend

Case studies from the ESG Impact team

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Introduction

Environment, social and governance (ESG) has never been more significant to a company's business strategy and planning. The business community's assumptions and plans are increasingly shaped by factors including:

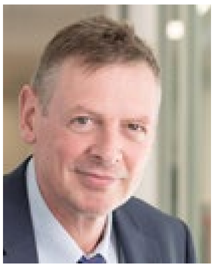
- The private sector's role in delivering the Sustainable Development Goals (SDGs)
- The urgent need to address climate change
- The social impacts of COVID-19, and
- The momentum around diversity and inclusion.

CDC has extensive experience in helping our portfolio companies respond to these business drivers and to develop and integrate better ESG practices. We work with these companies—as well as fund managers and financial institution partners—to build their capacities to better manage ESG risks and, crucially, to create business value at the same time. This strengthens a company's resilience and positions them to be more impactful and more successful.

CDC's ESG Impact (ESG I) team has a strong track record of delivering practical and informed support to our portfolio in Africa and South Asia. This report provides a flavour of how the team works and the impact that it has achieved. The case studies included here focus on four core areas of support: skills and leadership, job quality, climate, and gender. These are CDC's corporate strategic priorities and priority issues for many of our portfolio companies.

We want to share and encourage good practice across the private sector and run regular ESG capacity-building training programmes for investors and companies, as well as developing a range of good practice guidance and online products including CDC's ESG Toolkit – a free archive of digital resources, tools and guidance.

Looking to the coming decade, it's clear that the private sector must play a bigger role in addressing urgent and significant development challenges—from ensuring sustainable food security in a world where our assumptions about food production are rapidly being changed by the realities of climate change, to addressing social equity and inclusion for billions who continue to live in poverty. I am very proud of our 'ESG service offer' and hope that these case studies serve as examples of what can be achieved when the private sector acts as an agent of change.



Mark Eckstein
ESG Director
CDC Group

Skills & leadership

Developing skills and leadership is crucial to supporting SDG 8 (Decent work and economic growth) and to achieving impact in the sectors we invest in. CDC has developed a broad range of workshops and thematic training to provide skills-based capacity building to help our portfolio companies learn from each other and achieve common positive ESG outcomes.

The ESG I team builds the capacity of fund managers, financial institutions and portfolio companies to manage ESG risks and opportunities. We invest through fund managers leveraging their local expertise because they help us indirectly invest in far more businesses (and smaller businesses) than we could commit to directly. Our strong ESG requirements cover all of a fund's investments, even where we represent only a small proportion of a fund. This ensures we 'scale' our ESG impact and allows the fund manager to gain valuable experience, which may influence the manager's funds even where CDC is not invested.

Our ESG requirements filter down through a large portfolio of companies, and often their supply-chain partners too. This creates a significant impact on wider markers, and it means the systems and expertise that we help develop should remain in place long after we have exited the investment.

Investing in skills development in a conflict-affected region

Virunga Energy

Infrastructure

Democratic Republic of the Congo

Virunga Energy, a hydro-electric power business backed by the UK charity Virunga Foundation, was provided a $9m debt facility by CDC in 2016. The aim of the loan was to provide clean electricity to communities living in and around the Virunga National Park in North Kivu, in the Democratic Republic of the Congo.

During due diligence, the ESG I team recognised that Virunga had the potential to become a global model for peace building, poverty reduction, and biodiversity conservation by aligning with international environmental and social (E&S) standards. However, implementing such standards in conflict-affected areas is a challenge. Although the civil war officially ended in 2003, Eastern DRC is still one of the most difficult environments in the world. The military conflict in the region has led to immense social instability, and this has precipitated both a unique set of E&S challenges and an acute shortage of environmental, social, and health and safety professionals to tackle them. Businesses often need to rely upon expatriate international specialists, who do not necessarily contribute to direct and long-term skill development for the company or the economy.

Together with Virunga Energy, we set up a capacity building programme focused on creating local employment and building a sustainable E&S management function. Local staff would be trained to better identify and manage key E&S risks, based on the needs and priorities of the business.

Between 2016 and 2019, we conducted five site visits and delivered around 600 hours of training to the Virunga Energy Team, drawing on real-life situations faced by the company. This included a broad range of topics, such as how changes to working practices can improve workplace health and safety, how influencing the labour practices of local contractors can lead to better social outcomes, and the importance of community engagement in building a social licence to operate.

Through this capacity building programme, funded by CDC's technical assistance facility CDC Plus, we have been able to contribute significantly to unlocking local talent in one of the most poorly developed countries in Africa, providing sustainable impact beyond that of the capital itself.

Strengthening women's skills for a net zero economy

Ayana Renewable Power

Infrastructure

India

In 2018, CDC launched Ayana Renewable Power, an independent solar and wind generation company, with a commitment of $100m. The company was founded to develop green energy infrastructure in India and neighbouring countries in South Asia that have a power deficit and are dependent on fossil fuels.

The ESG I team rolled out a pilot with Ayana, the UK's Foreign, Commonwealth and Development Office (FCDO) and the Self-Employed Women's Association (SEWA) to establish specific and relevant skills training to help local communities—and women in particular—access work in the power sector. Women were reluctant to enter the formal economy because of the common perception that they couldn't work effectively in solar plants. Challenging this perception was a key part of our work: we recognised that skills training gave rural communities, and women especially, the ability and confidence to access work in Ayana's new solar power plant.

The pilot focused on basic and operational skills, as well as construction skills. A total of 315 people, 106 of whom were women, were trained. 168 people completed the training and a large proportion were recruited immediately. Importantly, the programme is aligned with the Just Transition agenda to secure workers' rights and livelihoods when economies are shifting to sustainable, lower carbon pathways.

The pilot demonstrated that interventions like this can add real business value by providing low-carbon businesses with the skills they need. Following its success, Ayana is looking to deploy this model when developing new assets.

Building environmental and social capacity in Bangladesh

RFL Electronics Limited

Manufacturing

Bangladesh

CDC committed a $15 million investment to RFL Electronics Limited (REL), a Bangladeshi electronic goods manufacturer and sister firm to the PRAN-RFL Group. Established in 1981, the PRAN-RFL Group started out producing cast iron goods for rural farmers, and has since expanded into various sectors, becoming one of the largest private employers in Bangladesh outside the garment industry.

REL faced challenges relating to labour and working conditions, many of which were linked to endemic issues in Bangladesh's manufacturing sector. The ESG I team worked with external advisers to create an E&S team that would support REL's alignment with international E&S standards. The team attended several on-the-ground workshops and helped to implement a robust and effective E&S management system (ESMS).

REL has already seen improvements as a result of this partnership, including:

- Improvements in job quality because of changes to working hours, without the company sacrificing productivity.
- Integration into REL's systems and closer monitoring ensuring contractors receive proper payment, have access to complaint mechanisms, and stay in safe accommodation.
- Commitments to improving and expanding existing training and awareness around harassment and gender issues, while supporting women to take more senior roles within the group.
- Improved occupational health and safety due to the company defining clear roles and responsibilities, improving technical knowledge, and introducing a robust monitoring system.

Providing practical and on-the-ground support may be more resource-intensive, but it can have a greater and longer-term impact, especially when the key objective is to build the capacity of local teams.

A decade of building market leaders in ESG

ESG workshops

Multi-sector

Africa and South Asia

Achieving good ESG standards is crucial to the success of sustainable business. Not only do high ESG standards help to mitigate risk, but they also help to identify and maximise opportunities to add value to business. One of the ways CDC helps firms to achieve these standards is through our ESG workshop programme, which provides hands-on support and practical advice to fund managers and investees.

Following a decade of ESG trainings specifically for fund managers—the largest such programme anywhere in emerging markets—we recently launched a revised and expanded three-year workshop programme that includes companies we invest in directly, and those we invest in through private equity funds.

The first workshops of the new programme were delivered in London and Lagos in 2019. The programme's aim is to improve the capacity of business to incorporate ESG into their operations and to help investors integrate ESG into their investment decision-making and monitoring. Norfund, who co-funds the programme, also uses the workshops to train their own staff and direct portfolio.

When the programme was first developed, its focus was primarily on helping fund managers to integrate ESG factors into their own investment processes. However, over the past decade, we have listened to participant feedback and evolved the offering into something far more ambitious and far-reaching. New workshops focus in-depth on climate change considerations, human resource (HR) management, emerging ESG issues, and integrating impact measurement. In hosting these trainings, we use a strong 'learning by sharing' approach, building on shared experiences and using examples from participants.

"Ultimately, we want to give people the skills and confidence to go back to where they work and do something a little bit differently," explains Guy Alexander, ESG Manager at CDC. *"Whether that's implementing a new HR policy, different ways of including employees in consultation with management, or an equity fund taking a new approach to climate."*

Participation in this new workshop programme has increased significantly compared to previous years. Prior to 2019, more than 800 people—spanning over 100 fund managers—attended trainings. Since the delivery of our 2019 learning workshops in London and Lagos, we have already trained over 240 people from over 95 different organisations, including fund managers, portfolio companies, other development finance institutions (DFIs) and representatives from our shareholder, the Foreign and Commonwealth Development Office (FCDO). Two-thirds of participants affirmed that they would apply the content of the workshops in their work within the month, and over one-third confirmed that they had already implemented changes in ESG practice at their companies as a result of this training.

In 2020, as a consequence of the COVID-19 pandemic, in person workshops were temporarily paused. We are working to evolve a virtual training workshop that keeps as much of the interactivity and implementation-focused learning experience as possible. In late 2020 this programme ran sessions exploring how COVID-19 was affecting the ESG and business integrity investment processes of fund managers and for portfolio companies, how an ESG management system is an essential tool to navigate the changing E&S dynamics they were experiencing.

The revised workshop programme also reflects CDC's focus on supporting smaller and first-time fund managers in emerging markets, who often face tougher ESG challenges because of contextual risks and circumstances. The inclusion of portfolio companies has expanded the reach of this training and improved the quality of dialogue as diverse experiences and points of view are represented in the room. By hosting these trainings, we aim to drive ESG value beyond compliance, offering a strong line of support that focuses on emerging themes and good practices.

Job quality

Job creation is a core driver of CDC's development impact. We are looking to create not just jobs, but quality jobs. And, increasingly, jobs that address Just Transition[1] opportunities and needs. We invest to create sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, in line with SDG 8 (Decent work and economic growth).

As part of this effort, the ESG I team conducts due diligence and monitoring to ensure our investees meet national and international standards on working conditions and terms of employment. Achieving these standards can be challenging in countries with weak labour and health and safety practices, and where good-quality infrastructure and equipment are often lacking. That means that our first step with many investments is helping businesses overcome these challenges.

Promoting adherence to labour standards is a fundamental aspect of our work with investees. But we also encourage companies to go further in their efforts to create quality, fulfilling work for people.

1 Supporting a 'Just Transition' to a net zero economy by keeping the creation of decent jobs and skills development at the forefront of the change.

Shaping labour conditions and safety culture in Egypt

Nubian Suns at Benban Solar Park

Infrastructure

Egypt

In late 2017, CDC made a $92 million debt investment in Nubian Suns across nine projects. These plants form part of the Benban Solar Park, a power complex of 32 solar power plants with a 1,600-megawatt capacity developed near Aswan in Southern Egypt. It is set to become the largest solar photovoltaic park in the world, and forms an important part of Egypt's Paris Commitments toward 20 per cent renewable energy by 2022.

Beyond the clear environmental impacts, CDC saw a significant opportunity to have a positive social impact through robust approaches to health and safety and other labour practices. The relatively inexperienced workforce had low safety awareness, and there were many differing approaches to safety among the wide range of project sponsors and contractors. These projects illustrate the role lenders can play in shaping a strong health and safety culture, among other environmental and social aspects.

The ESG I team was conscious that requesting an ESMS from each of the project sponsors would have its limitations, so we worked together with other lenders to coordinate consistent approaches across projects. We were also mindful that independent auditing alone would not lead to the culture change that was needed. In order to create a culture of health and safety, we needed to change mindsets.

Working with the other lenders, we appointed an on-site advisory consultant specialising in the management of E&S risks, including health and safety. The consultant was asked to facilitate the development of a consistent set of construction operating procedures that reflected global best practices, develop an improved understanding of practical ESMS implementation, and identify training needs and resource gaps.

The intervention was targeted at project sponsors, the facilities management contractor and workers. The consultant designed training workshops to be delivered to multiple project participants together, fostering the exchange of information, lesson-learning and dialogue on environmental and social aspects between sponsors. These workshops were delivered on a range of aspects, including health and safety, labour and working conditions, traffic and transportation safety, community engagement, solid waste management, air quality monitoring and management planning.

Key to the workshops was providing participants with practical tools to implement the ESMS and put the training into practice. Using CDC's Code of Responsible Investing as a reference point, these tools were developed in areas including grievance management, workers' accommodation, emergency response planning, vehicle inspection, noise and dust monitoring.

Supporting the private sector in the fight against modern slavery

Modern slavery

Multi-sector

Global

Modern slavery is an umbrella term comprising different forms of slavery, servitude, forced or compulsory labour and human trafficking. It represents a $150 billion per year illegal industry with over 40 million victims; and of those affected, approximately 16 million are in the private sector and 70 per cent are women.

Businesses and investors usually encounter modern slavery in the form of compulsory labour and human trafficking, through unacceptable practices such as abusive and fraudulent recruitment, withheld wages and document retention. The financial system has a special role to play as modern slavery and human trafficking are the third largest source of criminal profit, much of which moves through the global financial system.

There is growing recognition that the private sector has an important role to play in identifying risk factors, preventing occurrences and responding effectively when incidents do occur. In recent years, investors have become increasingly aware of the business risks associated with ignoring modern slavery risks, as well as the benefits—both human and commercial—to properly managing and addressing these risks.

In 2018, the ESG I team worked with the UK government's FCDO, the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) to commission Managing Risks Associated with Modern Slavery – A Good Practice Note for the Private Sector. The Note provides practical guidance to the private sector on how to proactively identify and manage potential risks and incorporate this guidance into the processes that many investors and companies already have in place (such as environmental and social due diligence and labour monitoring). It also builds a strong business case for addressing the risks of modern slavery in the private sector and communicates the importance of action, cooperation and collaboration.

The collaboration of international financial institutions – CDC, IFC and EBRD – with FCDO provided a clear opportunity to influence global and multi-sector coverage. The contributors are committed to upskilling their own teams and encouraging implementation across investees, clients and the wider private sector. Following the publication of the Note, CDC staff were involved in developing A Blueprint for Mobilizing Finance Against Slavery and Trafficking, a UN-sponsored initiative to increase the financial sector's influence in reducing modern slavery.

Using data to improve job quality

Coscharis Farms Limited, Sahel Capital

Food and agriculture

Nigeria

In 2015, Nigeria made self-sufficiency in rice a national priority. Small-scale farmers account for over three-quarters of the country's domestic rice production, but due to lower than average yield, low rates of irrigation and mechanisation, and lack of storage facilities, it is difficult to meet the high demand this priority has created. Larger producers like Coscharis Farms, an integrated rice processor, can help close this gap while creating quality jobs.

Coscharis Farms is a portfolio company of Sahel Capital's Fund for Agricultural Finance in Nigeria (FAFIN). CDC committed $15 million to the fund in 2017, and FAFIN invested $6 million into Coscharis Farms. The company provides jobs and vocational training opportunities through its farm, which is located in a state with a high percentage of arable land and where agriculture is a key driver of job creation.

Coscharis Farms' operations encompass rice cultivation, milling, storage and marketing. The farm is producing rice on 1,300 hectares of land with 292 full-time equivalent employees—mostly farmers—and has the potential to create new employment opportunities as it expands its operations. The company is in the early stages of developing an out-grower scheme expected to reach 4,500 farmers in the first phase of project implementation. In 2019, Coscharis Farms built and commissioned a rice mill with an annual milling capacity of 40,000 tonnes, and signed a concession agreement to manage a 25,000-tonne silo complex adjacent for storage.

To assess improvements in job quality as a result of the FAFIN investment, CDC contracted a third-party consultancy to conduct phone surveys with a number of employees and contractors in December 2018. The survey questions aimed to understand worker profiles, employment journeys, satisfaction with the workplace, and challenges faced by workers.

Based on the survey, roughly 40 per cent of current employees were in precarious employment positions before getting a job at Coscharis Farms, of which 32 per cent were not employed and 8 per cent worked only sporadically. The biggest factors in decisions to work for Coscharis Farms were its status as a large, reputable company and the appeal of a regular job. According to the study, 62 per cent felt their quality of life had improved while working at the company.

However, 44 per cent of workers reported facing some type of challenge in their daily jobs, suggesting there was scope for the company to continue improving job quality and worker satisfaction. Some of the suggestions offered by the survey-takers included improving training, implementing a shorter work week, and offering overtime pay options. Coscharis Farms also faced some challenges in maintaining harmonious relations with the surrounding community, with some tensions raised related to land and the pollution of shared resources.

FAFIN, with CDC's support, worked with Coscharis Farms to develop an action plan to respond to the E&S issues raised in the survey. The company employed an E&S manager trained to help address some of these issues. An E&S officer was subsequently hired to support him. As a result, new policies and practices have been developed to improve worker wellbeing and safety, incident reporting and root cause analysis.

On the HR side, Coscharis Farms has recently implemented a performance appraisal process that includes an assessment of training needs and a focus on career development. Some steps have also been taken to improve communication between management and staff, including establishing regular 'town hall' and departmental meetings, and introducing a suggestion box.

Looking forward, Coscharis Farms, FAFIN and CDC are discussing opportunities to increase worker satisfaction, productivity, and overall working conditions. For example, the company has developed a training programme to help staff to upskill and increase productivity.

Instituting job quality measures through a leading SME fund manager

Ascent Capital Africa

Multi-sector

East Africa

Ascent Capital is a leading small and medium-sized enterprise (SME) fund manager that invests in businesses across Eastern Africa, including Kenya, Ethiopia, and Uganda. CDC invested in Ascent's first fund (Ascent Rift Valley Fund) in 2014 and has since worked with Ascent to introduce good international industry practice on E&S standards.

CDC has played an important role in defining Ascent's ESG approach. Since our investment, both the Ascent team and representatives from the fund's portfolio companies have attended CDC ESG training workshops in Kenya. This formed the basis for how Ascent now incorporates ESG considerations into its investment process.

From the outset, Ascent has been very much aligned with CDC's strategic priorities. This has been particularly impactful because many of the SMEs that Ascent's fund invests in are family-owned and often have less experience with and capacity for ESG.

Today Ascent is proactively integrating job quality considerations into its portfolio, such as transitioning temporary and informal workers into permanent jobs and developing HR policies that incorporate fair recruitment, promotions, personal development, and dismissal, with evident benefits for job security and working conditions.

The fund has worked with ESG and HR managers at its portfolio companies to establish more effective communication channels between senior management and the workforce. The establishment of monthly worker forums and annual third-party employee satisfaction surveys in several companies has enabled employees to discuss key issues affecting them. This has led to:

- Decision-making processes that are informed by employees' experience, resulting in better solutions that are easier to implement.
- Previously unknown challenges surfacing, including instances of discrimination in recruitment and promotion. This has allowed senior management to understand and resolve these challenges, which has improved morale and increased productivity.
- Changes in company culture, as employees gain more ownership of what happens in their workplaces.
- The empowerment of employees to improve business processes, which has generated a range of practical and effective ideas from workers on how to improve business practices, grow revenue and increase productivity.

At one portfolio company, Ascent established a system to collect feedback and grievances through the ESG function. The company's ESG manager is now able to anonymously analyse the data and identify trends, which are shared and discussed with employees. The analysis is also shared with the company's Board, which enables management to agree on initiatives that aim to reduce absenteeism and improve productivity and morale in the workplace.

Nephat Njengwa, CEO of Auto Springs, an Ascent Fund portfolio company, says: *"Ascent has supported us to institutionalise best practices in human resource management and labour relations. By setting up clear policies, building communication channels, improving workplace health and safety, and developing skills and capabilities, this has improved our relationship with our employees."*

With CDC's support, Ascent has continued to build ESG capacity at the portfolio level by designing management systems and recruiting ESG and HR managers directly. This has changed business practices and created the opportunity for more sustainable businesses in the SME sector.

Looking forward, Ascent is providing further ESG support to its portfolio companies and disseminating best practices across its portfolio. In particular, they are focused on improving the gender balance in portfolio companies' workforces, especially in the manufacturing sector, and building technical and soft skills across all staff levels.

Climate

Climate change is a unique global challenge in scale, urgency, magnitude and complexity of action. The effects of climate change are already undermining the development and change we work to achieve in our investments. Climate change disproportionately affects CDC markets, as Africa and South Asia are likely to experience greater climate change risks and have less capacity to mitigate them. CDC's goal is to play a meaningful role in tackling climate change, and to support countries and communities in a successful and Just Transition to net-zero and resilient economies.

Our *Climate Change Strategy* outlines our plan to align our investment activities and portfolio with the Paris Agreement to support clean, inclusive and resilient growth in our markets. The strategy is also aligned to the pillars of the Task Force on Climate-related Financial Disclosures (TCFD), the main international framework for integrating climate change opportunities and risks into the management systems of financial institutions and businesses.

The ESG I team works with other teams across CDC to assess climate change risks and opportunities in potential investments during our due diligence process, which helps us agree an action plan before we invest. We then actively support our investees to develop measures, which may include:

- conducting a climate change impact assessment
- tracking and reducing energy and water consumption and greenhouse gas emissions
- developing a Climate Policy

Reducing environmental footprints in the Indian healthcare sector

Narayana Health

Healthcare

India

Hospitals and medical facilities are significantly more resource intensive than the average commercial building. They need considerable quantities of water and energy to power their operations around the clock, including everyday facilities such as lighting, heating and air conditioning, as well as the sterilisation of operating rooms.

India is one of the world's most water-stressed countries, so it is particularly important for healthcare organisations there to consider their use of this vital resource. Increasing resource efficiency not only brings significant environmental benefits but also offers cost savings. These are both benefits that help to ensure hospitals and healthcare systems thrive long-term. Beyond this, introducing water efficiency measures in water-stressed areas also brings social benefits, by—for example—mitigating water scarcity risks for local communities.

In 2014, we invested in Narayana Health, an Indian healthcare provider delivering high quality, affordable healthcare services to lower-income patients. The company has consistently been held up as an innovator in affordable health models, particularly its 'assembly line' approach to achieve low-cost at scale. At the time of our investment, Narayana Health was serving around 1.5 million patients annually in 18 hospitals. By March 2020, when we exited the investment, Narayana Health was treating over 2.5 million patients annually and had reached nationally recognised quality accreditation across 21 hospitals.

During our investment, CDC's ESG I team worked closely with Narayana Health to implement high E&S management standards across their hospitals and improve resource efficiency. CDC runs a programme that provides finance for resource efficiency projects and increases off-grid access to clean energy. Through this programme we supported Narayana Health to reduce energy consumption and promoted the adoption of renewable energy.

CDC-funded water, energy and waste audits identified ways Narayana Health hospitals could improve resource consumption and waste management practices. For example, the water audit identified several ways to reduce water use, such as installing low-flow devices in kitchens and training on how to avoid water leakages. These improvements led to significant resource savings, including a 20 per cent reduction in water consumption and a 9 per cent increase in water re-use by the business.

A CDC-funded energy audit, which recommended a system upgrade and installation of LED lights across selected hospitals, had similarly positive results. Combined with frequent training for staff on good practice, these energy-focused initiatives resulted in a 15 per cent reduction in energy consumption. In addition, by the time we exited the investment, 92 per cent of total energy consumption at Narayana Health's Health City Campus in Bangalore was powered by renewable energy. Adopting renewable energy helped Narayana Health reduce their total energy costs by 30 per cent.

The third CDC-funded audit focused on waste management, an integral part of E&S responsibility. Acting on its recommendations, which sought to identify the quantities and types of waste produced by the business, Narayana Health increased their paper and plastic recycling rate by up to 10 times in some hospitals.

The close partnership between staff at Narayana Health and our team was instrumental in driving the successful implementation of this work. Our investment required that Narayana Health create a dedicated E&S team to develop and deliver a comprehensive ESMS and we worked closely with the company's senior management team to increase awareness of the social, environmental and business value of strengthening ESG capacity within the business. In 2015, we supported the appointment of an E&S manager to oversee ESG performance across all Narayana Health hospitals.

Fast forward to 2020, and Narayana Health has a well-established ESG team with an E&S manager, energy manager and a fire safety officer reporting to senior management. This team was instrumental in developing and implementing an effective ESMS across all 21 hospitals with close support from CDC. Our relationship with the team at Narayana Health provided a platform for knowledge sharing, skills development and support for further improving operations across the organisation.

Narayana Health's experience shows how tackling water, waste and energy efficiency can result in significant environmental and financial impact for a business. Securing a sustainable energy supply and reducing resource consumption also helps businesses prepare for resource shortages and increases resilience to environmental shocks. Narayana Health's approach to ESG provides an example to other organisations in the sector, including companies in our portfolio who we are working with to implement similar initiatives.

Bringing climate resilience to commercial agriculture

Silverlands Fund I, SilverStreet Capital

Food and agriculture

Sub-Saharan Africa

Silverlands, a private equity fund by SilverStreet Capital, is focused on commercial-scale primary agricultural production across southern and eastern Africa. Silverlands' purpose is to help smallholder farmers maximise productivity through improved inputs and access to offtake markets, particularly for higher-value crops. Climate-smart agriculture, such as conservation farming practices, has been central to the fund's ethos since its inception. In 2011, CDC made an investment of $20 million in Silverlands, with the aim of increasing food production and strengthening farming in the region.

The ESG I team has worked with SilverStreet to develop the fund's E&S management systems and capacity. This involved hiring a dedicated ESG Manager at the Fund—two more have since been added—and developing people within each portfolio company to establish an ESMS that effectively monitors and tracks data on key parameters including climate change.

Using a Responsible Investment Code similar to our own, SilverStreet has embedded ESG processes into all of its main investment stages. The Head of Impact and ESG is a voting member of the Investment Committee.

Working with Silverlands' ESG Manager, we identified strategic ESG priorities and proposed targeted interventions with an emphasis on climate. These interventions are now regularly reported on in SilverStreet's Annual Impact and ESG Reports, demonstrating commitment and oversight at the senior level. They include the following measures:

- Improving land and soil management by implementing minimum tillage techniques across all Silverlands farms.
- Delivering training programmes to smallholder farmers in the fund's outgrower network on conservation farming methods, including minimum tillage, composting, mulching, and crop rotation. These practices help to increase soil organic matter, which reduces soil erosion and produces a carbon benefit.
- Developing and improving access to drought-tolerant hybrid seed varieties, which have reduced demand for water. Increasing yields per hectare using hybrid seed is a key climate mitigant as it reduces the number of hectares required to feed a growing population. SilverStreet has become the largest grower of hybrid seed in Tanzania and has invested in a Zambian seed business to help increase the use of hybrid seed regionally.
- Implementing efficient water resource management through conversion to drip irrigation at Silverlands farms.
- Using technology to improve water management and water-use efficiency, including flow meters, variable speed drive pumps, drip and micro-sprinkler irrigation systems and soil moisture probes at farms.
- Reducing waste by improving the accuracy of nutrient and pesticide application through the use of Normalised Difference Vegetation Index imagery.
- Improving pest management by frequent pest scouting (and training employees as pest scouts), and implementing various non-agrichemical pest control methods including: erecting bat houses (to increase the natural predation of insects), and using pheromone-dosed tags (to disrupt mating in moths).
- Reducing the volume of hazardous wastes by introducing supplier take-back schemes for agrochemical containers.

With CDC's support, SilverStreet significantly improved its capacity to identify, understand, manage, and monitor E&S risks in agriculture. Integrating climate into the fund's approach has been a business success and provides a good benchmark for other agribusiness funds.

SilverStreet has gone on to win awards for its impact and ethical approach to investments. It won Ethical Investment Manager of the Year two years in a row from Corporate LiveWire, as well as Best Impact Investor UK and Best African Agriculture PE Fund from Wealth and Financial International.

Building bricks for climate change

14Trees

Manufacturing

Sub-Saharan Africa

14Trees makes and sells Durabric bricks, a more sustainable alternative to the clay-burnt bricks widely used across sub-Saharan Africa.

Durabric bricks are produced from a mixture of soil and cement, which is compressed in a mould and left to air-cure. In Malawi, bricks are usually fired with wood unsustainably logged from forests, which is a major contributor to deforestation across the region. By avoiding the firing process entirely, Durabric bricks save up to 14 trees for every new house built.

A joint venture between CDC and LafargeHolcim, the company is based in Malawi and is already expanding across East Africa. It is also exploring low-embodied carbon construction for example alternative cements and 3D printing. In its first three years of operation, 14Trees sold over 2 million Durabric bricks in Malawi, saving the equivalent of 4,000 trees.

With the support of CDC Plus, the ESG I team has been working with 14Trees to generate carbon credits from the emissions savings. One credit is issued for every tonne of emissions saved by using this process, measured against a benchmark representing the average corollary building material for the market. 14Trees is in the process of qualifying for Gold Standard-approved credits for the voluntary emissions reduction (VER) market. Working with Gold Standard allows 14Trees to demonstrate both its environmental and social benefits. The issuance process is thorough and involves working with local communities and stakeholders: this ensures that the bricks are produced in a manner that is sensitive to local livelihoods and which provides social impact.

This project is unique in many respects. It is the first of its kind for Gold Standard and is CDC's first project supporting carbon asset development. The aim of the carbon credits project is to support the financial viability of innovative solutions by providing revenues for 14Trees. However, as 14Trees is a JV with CDC and LafargeHolcim, we hope that solutions developed can ultimately be scaled through the wider construction industry.

To bring credits to market, the ESG I team engaged with 14Trees throughout the feasibility, planning and implementation phases of the project for over two years. Initial feasibility studies were needed to understand if carbon revenues could be viable, including understanding risks around attempting the project, and how different Durabrics are from the average brick in the market. As these credits are the first of their nature, the process has been particularly thorough and robust, but the methodology approved for 14Trees will serve as the benchmark for all future projects of this kind.

To support the project, we contributed knowledge of the carbon asset development processes, methods of increasing the credits' value, and specialist advisory support. A big factor in the project's success is LafargeHolcim's consistent engagement, strong commitment at corporate and country levels and an institutional willingness to test new ideas. We anticipate that 14Trees will realise carbon finance revenues in early 2021.

Supporting the off-grid solar industry in a changing legislative landscape

Kenya e-waste position paper

Waste management

Kenya

Economic growth in emerging markets has resulted in an exponential rise in the generation of electrical and electronic waste (e-waste), with an annual growth rate of three to four per cent. Many countries where CDC invests lack the legislation, standards and infrastructure needed to manage e-waste effectively. Kenya is one such country, but the legislative landscape is changing, with draft legislation on e-waste under approval.

The off-grid solar (OGS) sector generates only a small proportion of the total e-waste generated in Kenya, but has the availability to reach remote areas, where systems for the management of waste generally—and e-waste particularly—are usually lacking. While the OGS industry has been proactive in ensuring responsible management of their end-of-life products, this has commercial implications that could lead to an increase in product prices, thereby reducing their affordability.

Our investment of $11.6 million of equity in M-Kopa in 2016 provided an opportunity to investigate how e-waste could be managed by the industry as a whole. M-Kopa is the world's largest pay-as-you-go solar energy company and its off-grid solar home systems operate in over 700,000 low-income households in Kenya and Uganda.

This investment encouraged us to support the Global Off Grid Lighting Association (GOGLA) and the Kenya Renewable Energy Association to bring the views of Kenya's OGS companies to a crucial countrywide debate. A position paper was developed that aims to inform the effective implementation of the upcoming e-waste legislation in Kenya. The development of the position paper was also accompanied by several training sessions for OGS companies, with support by the ESG I team, in June and July 2019.

With CDC's assistance, the OGS industry in Kenya is working proactively on a growing environmental concern, with lessons that could be adopted in other countries.

Future-proofing business in a changing climate

Zephyr Power

Infrastructure

Pakistan

In 2017, CDC invested in Zephyr Power, a renewable energy company developing a 50-megawatt wind power plant in the Sindh province of Pakistan. The wind farm, which became operational in 2019, is built on an intertidal wetland. As a result of sea levels rising around the globe, the site may be exposed to increased flooding over time. Even though the wind farm was designed with this long-term risk in mind, we are nevertheless working with Zephyr Power to strengthen the business' climate change resilience using nature-based solutions.

When we invested in the business, we recognised that the site's wetland had become degraded due to human intervention such as cutting mangroves for firewood, fishing, crabbing and camel grazing. We worked with Zephyr Power to implement a mangrove protection and rehabilitation programme which will not only improve the site's ecological value but also provide protection from the effects of climate change and bring broader benefits to the local community.

Zephyr Power worked with the local government to raise awareness among local communities of the value of mangrove protection. *"It's been an interesting alignment of our local communities,"* says Kumayl Khaleeli, CEO of Zephyr Power. *"We've worked in tandem with the forestry department, and with the help of CDC, to help the local communities realise the long-term economic benefits to adopting environmental awareness."*

In partnership with the forestry department, Zephyr Power planted mangroves strategically around the site, which have successfully developed to create a site rich in mangroves. Today, Kumayl says that you can see that the site is flourishing. *"Our partners see that these are decisions we make every day. That means the plan has been moulded as the project has grown and as we see the site settle over time."*

The mangrove programme not only brings ecological benefits by helping to restore biodiversity, but also makes good business sense. As the land is located in a tidal delta, the water levels rise and fall across the site over the course of a day. Civil infrastructure such as roads and wind turbine platforms are gradually worn away by the tide, and they require frequent maintenance. The new mangroves physically protect the infrastructure by acting as buffers against tidal currents. In turn, this reduces damage to the infrastructure, which reduces maintenance costs for the business.

The programme is also bringing benefits to local livelihoods. Mangroves serve as a breeding ground for wildlife. As a result of the conservation effort, which has been supported by the local community, fishermen in the area are beginning to benefit from increased fish, shrimp and crab populations. Following the success of the programme, Zephyr Power also plans to cultivate their own mangrove seedlings by setting up a nursery, which could provide additional livelihoods in the area.

Today, the mangrove programme provides multiple benefits for Zephyr and the local community. Moving forward, as the impact of climate change grows and sea levels rise, the mangroves will become increasingly important to the protection of the business. We know that nature-based solutions such as these have a critical role to play in helping to build resilience to climate change. CDC is conducting further research on the business case for strengthening adaptation and resilience. Once complete, this will showcase the benefit of using such nature-based approaches to others in the private sector.

Gender

Advancing gender equality and empowering women economically is at the heart of building sustainable and inclusive businesses.

Women in our markets face significant economic barriers, and we're committed to using our role as an investor to help close the economic gaps between men and women. We aim to demonstrate to the wider investment industry the social and economic value of investing in women.

At the assessment phase of investment, we analyse potential risks such as discrimination in recruitment and progression and gender-based violence and harassment (GBVH). We also use a gender lens to identify opportunities to improve the performance of our investees or their portfolio companies by implementing gender-based interventions.

Promoting the female workforce in forestry

Miro Forestry Company

Food and agriculture

West Africa

Miro Forestry is a sustainable forestry and timber business with plantations in Ghana and Sierra Leone. It was founded and began planting in late 2010. CDC invested $15 million in 2015 and the company has now established over 10,000 hectares of standing forest through its planting activities.

Despite the operational progress made, Miro's absentee levels and attrition rates were higher than desired, and the company believed it could begin to address this issue by shifting its focus to its female workforce, offering women more career progression opportunities. The CDC ESG I and Gender teams began a journey to assist Miro to develop a gender action plan (GAP) for its plantations in Ghana. The plan seeks to embed gender initiatives that advance women's economic empowerment locally while delivering business value to Miro.

The initiatives set up by Miro and CDC included an upskilling programme for women which aimed to provide equal opportunities for training and unconscious bias training to senior management to increase hiring of women. As the GAP was rolled out and lessons were learnt, the plan was updated annually and now has a large focus on confidence and capacity building for female employees. In addition to this GAP, the ESG I team also helped Miro appoint a female ESG Manager, who is now a director of the company assisting with diversity at a senior level. In addition, in October 2020 Miro qualified for the 2x Challenge, a commitment by CDC and other DFIs to advance women's economic empowerment and equality. To qualify, Miro committed to continue their efforts to increase the ratio of women in the workforce to 40 per cent.

Some of the key lessons learned from implementation – which have been taken forward into the next phase of development -- were that the GAP was not culturally sensitive enough and the value of proposed actions such as women's committees were not supported by the workforce on the ground. In addition to the cultural challenges within the workplace, in Sierra Leone, the strong religious and traditional cultures made the development and implementation of a GAP even more challenging.

It was also recognized that focusing on a gender-sensitive approach to the business and the cultural changes within communication and management styles were needed for successful change.

In 2020, in response to a requirement for a safeguarding policy and a need to update and improve the GAP, Miro developed a process, in partnership with CDC, other investors and a local civil society organisation, to facilitate a deeper understanding of the challenges faced by women in the workforce and community, resulting in a more targeted approach to gender development, GBVH and a change in the company culture.

CDC sees the GAP as an important opportunity to better understand which interventions can empower women economically while delivering business value. Together with Miro's Compliance Director, we continue to monitor the implementation and enhancement of the GAP and identify further opportunities to make an impact.

Upskilling women for a stronger business

Portea

Healthcare

Bangalore

Portea is a home healthcare company in India that operates across 16 different cities. Its network of caregivers offers services like physiotherapy, at-home doctor visits, lab testing, nursing and in-home prenatal & neonatal care. In 2018, CDC invested $7 million in equity via the Manipal joint venture platform.

Since its founding in 2013, Portea has logged over two million patient visits and has grown to an employee base of 4,000. Fifty-eight per cent of its workforce, and 45 per cent of all leadership, are women.

However, during the due diligence process, the ESG I team noticed that female caregivers did not advance professionally within the company. Many of these women lacked formal secondary education, as acquiring these qualifications would have meant additional travel and time away from home. There was a perception that this would prevent them from developing within their selected career path.

CDC backed Portea to provide professional development training to its caregivers, giving women the opportunity to improve their on-the-job skills, while also improving the quality of care provided to patients.

In total, 75 caregivers were upskilled through the training programme, and are now able to offer a broader suite of higher value caregiving services to Portea's clients. Data from the control group shows that the employee attrition rate (14 per cent vs 19 per cent) and number of complaints is lower than the company-wide average.

CDC's involvement with the training programme for Portea's female workforce demonstrates that it's possible to have a positive influence on employee attrition and improve the level and quality of services within an investee company.

Catalysing the private sector in the fight against GBVH

Gender-based violence and harrassment

Multi-sector

Global

Gender-based violence and harassment (GBVH) is a widespread and serious global issue that affects individuals in the workplace, their communities, and the home. GBVH is an umbrella term and can take many forms including physical, psychological, sexual or economic harm. It is directed at a person because of their sex or gender, or by disproportionately affecting persons of a particular sex or gender. While GBVH can affect anyone, it is predominantly perpetrated by men against women and girls: an estimated one in three women worldwide has experienced some form of physical or sexual violence.

There is growing recognition that the private sector has an important role to play in identifying risk factors, preventing occurrences, and responding effectively when incidents do occur. Because of the negative impact on individuals, businesses are affected by risks to their employees' mental and physical health and productivity as well as exposure to legal and reputational risks.

Addressing GBVH in the private sector is a relatively new and complex area. In June 2019, the International Labour Organisation (ILO) established a new global standard to combat violence and harassment in the world of work, including GBVH, with its Convention No. 190. This Convention recognises that GBVH is a threat to equal opportunities and is incompatible with decent work, which are both core priorities of CDC. As countries work to adopt this Convention, new laws will come into effect, and companies will have to meet these higher expectations.

CDC, in partnership with the EBRD and the IFC, developed Addressing Gender-Based Violence and Harassment: Emerging Good Practice for the Private Sector, which focuses on practical guidance for addressing GBVH risks, with an emphasis on emerging markets.

While GBVH is systemic, it can also be difficult to detect. Training is required to respond to it appropriately. As more private sector players realise the importance of addressing GBVH, it is essential that they know how to reduce the likelihood and manage incidents of GBVH. The Guidance is sector-agnostic but includes short briefings outlining the key risks and mitigation entry points in manufacturing, transport, construction, education, hospitality and agribusiness.

Unlike the ILO Convention, the Guidance does not set new standards or requirements but rather provides practical guidance on how to better prevent and respond to GBVH. By bringing this difficult topic to the fore, the development finance partners hope to continue an important conversation and build knowledge to prevent risk factors and incidents as much as possible.

Glossary of terms

2X Challenge	A commitment by the G7 Development Finance Institutions and others to collectively mobilise $3 billion in women through gender-lens investing
CDC Plus	CDC's technical assistance and support facility, funded by FCDO
DFI	Development finance institution
E&S	Environmental and social
EBRD	European Bank for Reconstruction and Development
ESG	Environment, social and governance
ESG I team	CDC's Environment, Social and Governance Impact team
ESMS	Environmental and social management system
FCDO	UK's Foreign, Commonwealth & Development Office
GBVH	Gender-based violence and harassment
HR	Human resources
IFC	International Finance Corporation
ILO	International Labour Organization
Just Transition	Supporting a 'Just Transition' to a net zero economy by keeping the creation of decent jobs and skills development at the forefront of the change
SDGs	The set of Sustainable Development Goals that UN members aim to achieve by 2030
$	All $/dollars are US dollars unless otherwise stated

Photography

All photographs originate from CDC's image library of investee businesses, or have been supplied by investment partners, purchased from stock libraries, or have been taken by CDC employees on site visits.

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