



CODE OF RESPONSIBLE INVESTING

INTRODUCTION

CDC believes it should invest in a responsible fashion, considering environmental, social and governance (ESG) and business integrity matters. Effective management of these matters not only reduces the possibility of stakeholders being adversely affected by business activities, but also provides them with access to remedy. It can also add value to businesses through, for example, improving business efficiency, staff motivation and stakeholder relations. The Code of Responsible Investing (this “Code”) sets out CDC’s requirements, recommendations and management systems to invest responsibly. Through this Code, CDC works with intermediaries and companies in a responsible approach to business that starts with compliance with certain basic requirements and works towards the adoption of internationally recognised standards of best practice.

CDC recognises that not every business will be in full compliance with this Code at the date of investment. In such cases, CDC, or its fund managers, will work with the business to develop an Action Plan (that seeks to achieve compliance) with clear deliverables in reasonable time frames, taking into consideration the risks and opportunities specific to that business and its size and resources.

Guidance on how this Code can be implemented in practice can be found in CDC’s Toolkit on ESG for Fund Managers (which can be downloaded from CDC’s website: www.cdcgroup.com) and IFC’s E&S Toolkit (www.estoolkit.com). Guidance for financial institutions can be found at www.firstforsustainability.org. In-depth analyses of sector-specific risks can be found in the World Bank’s EHS Guidelines (<http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>). FMO also host good online resources for private equity funds and microfinance institutions: <http://www.fmo.nl/esg-tools>

Guide to Application of the Schedules of the Code

The table below refers to the requirements directly applicable to the organisation at the top of the column. Therefore, a Fund Manager or Financial Institution should consider the final column when evaluating requirements for investee businesses.

Schedule No.	CDC	Fund Managers	Financial Institutions (high risk)	Financial Institutions (other)	Portfolio Companies
1	Yes				
2	Yes (for direct investments)	Yes	Yes for high risk sector investments (which in turn should apply Schedules 3 & 4 where relevant)	Investees to comply with Applicable Laws and International Sanctions only	
3		Yes	Yes	Yes	Yes
4		Yes (where relevant)	Yes (where relevant)	Yes (where relevant)	Yes (where relevant)
5					Where appropriate
6	Yes	Yes	Yes	Yes	Yes

CODE OF RESPONSIBLE INVESTING

1. CDC's capital will not be invested, either directly or indirectly, in any Excluded Activity.
2. CDC shall maintain a responsible investment management system, as outlined in Schedule 1.
3. Every Portfolio Company shall either (i) comply with all Requirements or (ii) for any Requirements with which it does not comply, have agreed to an Action Plan. Every Portfolio Company shall implement systems to monitor:
 - a. implementation of the Action Plan, and
 - b. that the business otherwise remains in compliance with the relevant provisions of this Code.
4. Every Fund Manager shall either (i) maintain management systems that satisfy Schedule 2 and comply with all Requirements or (ii) for any provisions of Schedule 2 or Requirements with which it does not comply, have agreed to an Action Plan.
5. Any Financial Institution in which CDC invests directly shall:
 - a. not use such funds to invest in any Excluded Activity,
 - b. comply with all Requirements, and
 - c. ensure that each business that such Financial Institution invests in complies with Applicable Laws.

Any Financial Institution that uses CDC funds for a portfolio that contains a substantial exposure to businesses or projects with potential for significant adverse social or environmental impacts shall additionally maintain management systems that satisfy Schedule 2 for such portfolio.

6. So long as CDC is invested in a business, CDC (if the investment is direct) or the Fund Manager or Financial Institution (if the investment is indirect) shall ensure that:
 - a. any Action Plan is implemented, and
 - b. the business otherwise remains in compliance with the relevant provisions of this Code.
7. CDC, Fund Managers and Financial Institutions shall promote, and where practicable support any investee business that seeks to implement, the recommended actions listed in Schedule 5.
8. In the event CDC co-invests (including with other development finance institutions), CDC may elect to apply requirements differing from, but substantially similar to, those in this Code in order to harmonise the requirements of all investors.

GLOSSARY

Action Plan: A plan that seeks to achieve compliance with the Requirements on a specified schedule which CDC, the Financial Institution or the Fund Manager (as applicable) reasonably believes that the business is willing and able to implement.

Applicable Laws: As defined in Schedule 3.

EHS Guidelines: World Bank Group Environmental Health and Safety Guidelines¹.

Excluded Activity: Any business or activity listed on Schedule 6.

Financial Institution: A commercial or mortgage bank, an insurance company, financial leasing company or similar institution.

Fund Manager: Any investment fund manager managing capital on behalf of CDC.

IFC PS: IFC Performance Standards².

International Sanctions: As defined in Schedule 3.

Portfolio Company: Any of the following (i) a company that has received capital directly from CDC; (ii) a company that has received CDC capital through a Fund Manager; or (iii) a company in the portfolio of a Financial Institution, provided that CDC funds are being used in the portfolio and the Financial Institution is required by this Code to maintain management systems that satisfy Schedule 2.

Requirements: As to any business, the requirements set out on Schedule 3 and those requirements set out on Schedule 4 that apply to the business.

The Code: This Code of Responsible Investing.

¹ See <http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>

² See <http://www.ifc.org/ifcext/policyreview.nsf#SF>

SCHEDULE 1

RESPONSIBLE INVESTMENT MANAGEMENT SYSTEMS FOR CDC

CDC will:

- assist its Fund Managers and Financial Institutions to establish and maintain ESG management systems, including through the provision of training and guidance materials;
- establish and maintain for its direct investments ESG management systems substantially similar to those described in Schedule 2³;
- keep under active review the implementation of the Code, including timely progress against agreed Action Plans, through engagement and correspondence with Portfolio Companies, Fund Managers and Financial Institutions, using technical experts where necessary;
- provide a grievance mechanism through which stakeholders can report alleged breaches of this Code;
- in the event that CDC considers there has been a material breach of this Code by a Fund Manager, Financial Institution or a Portfolio Company, investigate the matter and seek to resolve any breach together with the Fund Manager, Financial Institution and/or Portfolio Company, as appropriate. If discussions with the Fund Manager, Financial Institution or Portfolio Company do not adequately resolve the issue, CDC will consider a variety of options including third party investigations, negotiated settlements, contractual remedies and its future relationship(s) with the breaching parties; and
- publicly report on its implementation of the Code.

³ In the case of co-investments, CDC will ensure that one of the co-investment partners, or CDC, manages the Portfolio Company in line with Schedules 1 to 6 of this Code.

SCHEDULE 2

RESPONSIBLE INVESTMENT MANAGEMENT SYSTEMS FOR FUND MANAGERS AND FINANCIAL INSTITUTIONS

Note: Schedule 2 applies to all Fund Managers. It also applies to any Financial Institutions that use CDC funds for a portfolio that contains a substantial exposure to businesses or projects with potential for significant adverse social or environmental impacts.

Responsible investment management systems⁴ shall include:

- **Policy and Processes.** Ensuring the Fund Manager’s or Financial Institution’s own operations comply with the Requirements; identifying the environmental, social and governance risks of all new investments and appropriately managing and monitoring those risks (including the identification of climate change risks, and reporting on greenhouse gas emissions from high carbon intensity activities); preventing any investment in an Excluded Activity; assessing compliance of all investments with the Requirements and developing an Action Plan to address any areas of non-compliance; establishing a public grievance process for the reporting of ESG matters.
- **Roles and Responsibilities.** Assigning ESG responsibilities to (i) a designated representative of senior management, who is a member of appropriate investment and governing bodies and (ii) suitably trained employee(s) or consultant.
- **Performance Management.**
 - Working with Portfolio Companies continually to improve their performance on environmental (including climate change risks), social, corporate governance⁵ and business integrity matters;
 - monitoring Portfolio Companies’ performance and continued compliance with this Code including their timely progress against agreed Action Plans, including periodic meetings and/or site visits (as warranted by the risks of such business) and using technical experts where necessary;
 - identifying and recording any serious incidents involving Portfolio Companies that result in loss of life, severe permanent injury or severe permanent damage to health, a material adverse environmental or social impact, or material breach of law relating to environmental, social or business integrity matters, including financial irregularities, and promote appropriate corrective actions; and
 - ensuring integration of ESG management systems into their business so that they continue after any exit from the investment.

⁴ Further guidance on ESG management systems and assessments is provided in CDC’s “Toolkit on ESG for Fund Managers”, see www.cdcgroup.com and the IFC’s Environmental and Social Management Toolkit, see www.estoolkit.com Further guidance on ESG Management Systems for financial intermediaries is available from: www.firstforsustainability.org

⁵ Guidance is also provided in the DFI Toolkit on Corporate Governance: http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/corporate+governance/cg+development+framework/cg+dfi+documents

- **Reporting.** Ensuring regular (and no less than annual) reporting of environmental (including climate change), social and governance matters (and immediate reporting of any serious incidents, such as fatalities or breaches of law) to governing bodies and investors.

SCHEDULE 3

REQUIREMENTS FOR ALL BUSINESSES

Every business in which CDC's capital is invested will:

- operate in compliance with applicable local and national laws including laws covering environmental impacts, labour rights, social issues, corporate governance and those intended to prevent extortion, bribery, corruption and financial crime (“Applicable Laws”);
- operate in compliance with relevant international sanctions, including those of the European Union and the United Nations (“International Sanctions”)⁶;
- implement management systems, appropriate to the size and nature of the business, that ensure a systematic approach to ESG risk assessment, addressing relevant risks, monitoring and reporting on progress and, to the extent possible, involving stakeholders⁷;
- ensure achievement of and continuous compliance with the Requirements or related Action Plan;

Working Conditions and Labour Rights

- not employ or make use of forced labour⁸;
- not employ or make use of child labour⁹;
- pay wages which meet or exceed industry or legal national minima¹⁰;
- not discriminate in terms of recruitment, progression, terms and conditions of work and representation, on the basis of personal characteristics unrelated to inherent job requirements, including gender, race, colour, caste, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, marital status, membership of workers’ organisations, legal migrants, or HIV status¹¹;
- adopt an open attitude towards workers’ organisations and respect the right of all workers to join or form workers’ organisations of their own choosing, to bargain collectively and to carry out their representative functions in the workplace¹²;

⁶ See http://www.hm-treasury.gov.uk/fin_sanctions_index.htm for a full list.

⁷ See IFC PS 1 for guidance.

⁸ As covered by the ILO Forced Labour Convention (No. 29) and the Abolition of Forced Labour Convention (No. 105). See www.ilo.org/ilolex/english/docs/declworld.htm

⁹ As defined by the ILO Minimum Age Convention (No. 138) and the Worst Forms of Child Labour Convention (No. 182). See www.ilo.org/ilolex/english/docs/declworld.htm

¹⁰ See <http://www.ilo.org/dyn/travail/travmain.home> for guidance.

¹¹ As covered by the ILO Equal Remuneration Convention (No. 100) and the ILO Discrimination (Employment and Occupation) Convention (No. 111), allowance could be made where positive discrimination is mandated in law and is intended to address a historical imbalance. See www.ilo.org/ilolex/english/docs/declworld.htm

¹² As defined by the ILO Freedom of Association and Protection of the Right to Organise Convention (No. 87) and the Right to Organise and Collective Bargaining Convention (No. 98). See www.ilo.org/ilolex/english/docs/declworld.htm

- provide reasonable working conditions including a safe and healthy work environment, working hours that are not excessive and clearly documented terms of employment¹³; and in situations where workers are employed in remote locations for extended periods of time to ensure that such workers have access to adequate housing and basic services

Access to Remedy

- provide an appropriate grievance mechanism that is available to all workers and where appropriate other stakeholders¹⁴;
- implement a procedure for the reporting of wrongdoing and misconduct in the workplace that includes protection for the reporter and appropriate disciplinary action for anyone found to harass the reporter;

Business Integrity

- uphold high standards of business integrity and honesty;
- adopt and implement policies to prevent extortion, bribery, fraud, corruption and financial crime in accordance with local law requirements and international best practice¹⁵;
- properly record, report and review financial and tax information¹⁶;
- establish corporate governance practices appropriate to the size and nature of the business¹⁷;
- deal with regulators in an open and co-operative manner; and
- use information received from its business partners only in the best interests of the business relationship and not for personal financial gain by any worker.

¹³ Respecting any collective bargaining agreements that are in place or where these do not exist or do not address working conditions, make reference to conditions established, by collective agreement or otherwise, for work in the trade or industry concerned in the area / region where the work is carried out and local or national law. See <http://www.ilo.org/dyn/travail/travmain.home> and IFC Performance Standard 2 for guidance. For working hours, see also the ILO Hours of Work (Industry) Convention (No. 1) http://www.ilo.org/dyn/normlex/en/F?p=1000:12100:0::NO::P12100_ILO_CODE:C001

¹⁴ See IFC Performance Standard 2 and the “Effectiveness Criteria for Non-Judicial Grievance Mechanisms” within the UN Guiding Principles on Human Rights (http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf) for guidance.

¹⁵ CDC promotes compliance with the UK Bribery Act 2010.

¹⁶ Direct investments, including investment intermediaries, are required to report to the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), see www.iasb.org or other internationally recognised accounting standards; and the International Private Equity and Venture Capital Valuation Guidelines (“IPEVC”), see www.privateequityvaluation.com. Investees of Investment Intermediaries should as a minimum report to local reporting standards and should make progress towards internationally recognised accounting standards.

¹⁷ Guidance is provided in the DFI Toolkit on Corporate Governance: http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/corporate+governance/cg+development+framework/cg+dfi+documents.

SCHEDULE 4

ADDITIONAL REQUIREMENTS FOR SPECIFIC ACTIVITIES

If the activities of a Portfolio Company involve or could be reasonably expected to involve:

- significant air emissions (including of Green House Gases – GHGs), use of water or generation of liquid effluents, generation of hazardous or other solid wastes; or resource use inefficiencies;
- transactions that generate adverse community health and safety impacts;
- the acquisition and/or use of land that result in economic or physical displacement;
- significant negative impacts on biodiversity, habitats or ecosystem services¹⁸;
- impacts to Indigenous Peoples (or other marginalised and vulnerable groups);
- impacts to cultural heritage; or
- other significant negative environmental or social impacts;

then (i) the relevant IFC PS's should be implemented, (ii) an appropriate stakeholder engagement plan should be developed¹⁹, and (iii) an environmental and social impact assessment and/or issue specific action plan (e.g. a resettlement action plan)²⁰ should be developed for such activities.

If the activities of a Portfolio Company could reasonably be expected to involve:

- *significant risks to the health and safety of workers or to other stakeholders, including affected communities*, assess and mitigate those risks, for example through a Health and Safety audit and action plan, in line with the relevant IFC PS's and EHS Guidelines;*microfinance*, endorse and apply the SMART Campaign Client Protection Principles²¹;
- *coal-fired power*, ensure the use of coal is justified by the investment's development impact²²; and
- *significant emissions of greenhouse gases*, ensure that adequate measures to reduce emissions to the extent possible and mitigate adverse climate impacts are implemented and that the company reports on its emissions .

¹⁸As defined in IFC PS 6, paragraph 2. These include but are not restricted to (a) provisioning services such as food or timber; (b) regulating services such as water flow regulation; (c) cultural services such as sacred sites; and (d) supporting services such as soil formation.

¹⁹ See IFC Performance Standard 1 for guidance.

²⁰ The ESIA or audit should be carried out in line with the appropriate IFC PS (<http://www.ifc.org/ifcext/policyreview.nsf#SF>), any relevant World Bank Group EHS Guidelines (<http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>) and the requirements in Schedule 3.

²¹ <http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>

²² See CDC's Policy on Coal Power.

SCHEDULE 5

RECOMMENDED PRACTICES ENDORSED AND PROMOTED BY CDC

Businesses should consider the potential for positive environmental and social impact from their business activities and how these could also benefit the business, for example through cost savings, reduced staff turnover or improved stakeholder relations. These should include adopting, developing, offering or marketing:

- products, services, skills or employment opportunities that could benefit community stakeholders;
- a living wage that is sufficient to meet workers' needs; and
- resource efficient, greenhouse gas reducing²³ or low carbon technologies or working practices.

CDC also promotes the following international standards and encourages the businesses for which they are appropriate to make progress over time work towards achieving and maintaining them:

- the UN Declaration of Human Rights and the "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework"²⁴;
- OECD Guidelines for Multinational Enterprises: recommendations for responsible business conduct in a global context²⁵;
- the range of internationally certifiable environmental, social and quality standards issued by the International Organization for Standardization ("ISO"), including the ISO 14000 series, notably including standards for environmental management systems (ISO 14001), and Greenhouse Gas emission accounting and verification (ISO 14064-65), the ISO 26000 series on social responsibility and the ISO 9000 series on quality management²⁶;
- internationally recognised standards on health and safety including the ILO guidelines for occupational safety and health, the international occupational health and safety management system specification OHSAS 18001, HSG65 and industry specific international good practice standards related to the safety of product use, for example the international Good Manufacturing Practice standards for food and pharmaceutical products promoted by the World Health Organization²⁷;
- relevant and credible standards as demonstrated by independent verification or certification such as the Forestry Stewardship Council certification, the Roundtable on Responsible Soy, the Marine Stewardship Council certification; the Principles and Criteria of the Roundtable on Sustainable Palm Oil and the Extractive Industries Transparency Initiative²⁸; and
- international standards of good corporate governance²⁹.

²³ In line with the UN Framework Convention on Climate Change and the associated 2005 Kyoto Protocol, as may be amended from time to time, and the IFC Performance Standards and World Bank Group EHS Guidelines, as may be amended from time to time. See www.unfccc.int/2860.php, See www.ifc.org/ifcext/policyreview.nsf#SF and www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines

²⁴ <http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf> Guidance is available here: http://www.unglobalcompact.org/issues/human_rights/The_UN_SRSG_and_the_UN_Global_Compact.html

²⁵ <http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/48004323.pdf>

²⁶ www.iso.org

²⁷ http://www.ilo.org/public/english/region/afpro/cairo/downloads/wcms_107727.pdf; <http://www.ohsas-18001-occupational-health-and-safety.com/>; <http://www.hse.gov.uk/pubns/priced/hsg65.pdf>; www.who.org

²⁸ www.fsc.org, www.responsiblesoy.org, www.msc.org; www.rspo.org; www.eiti.org

²⁹ Including the 2004 Organization for Economic Cooperation and Development ("OECD") Principles of Corporate Governance (see www.oecd.org), the UK Corporate Governance Code (see www.frc.org.uk/corporate/ukcgcode.cfm) and the King III

SCHEDULE 6

EXCLUSION LIST

Any of the following activities:

- Production of, or trade in, any product or activity deemed illegal under applicable local or national laws or regulations or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements such as certain:
 - hazardous chemicals, pharmaceuticals, pesticides and wastes³⁰;
 - ozone depleting substances³¹;
 - endangered or protected wildlife or wildlife products³²; and
 - unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 kilometers in length;
- Production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes);
- Production of, use of, or trade in, unbonded asbestos fibres;
- Production of, or trade in, radioactive materials³³; or
- Prostitution.

Any businesses, if any of the following activities represents a substantial portion of such business³⁴:

- gambling, gaming casinos and equivalent enterprises;
- tobacco or tobacco related products³⁵; or
- pornography.

Report on Governance for South Africa (<http://african.ipapercms.dk/IOD/KINGIII/kingiiiireport/>). Guidance is also provided in the DFI Toolkit on Corporate Governance:

http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/corporate+governance/cg+development+framework/cg+dfi+documents.

³⁰ As specified in the 2004 Stockholm Convention on Persistent Organic Pollutants (“POPs”), see www.pops.int; the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, see www.pic.int; the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int and [WHO Recommended Classification of Pesticides by Hazard Class Ia \(extremely hazardous\); or Ib \(highly hazardous\)](http://www.who.int/ipcs/publications/pesticides_hazard/en/) http://www.who.int/ipcs/publications/pesticides_hazard/en/; as may be amended from time to time.

³¹ As specified in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see www.ozone.unep.org, as may be amended from time to time.

³² As specified in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna (“CITES”), see www.cites.org, as may be amended from time to time.

³³ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment in which the radioactive source could reasonably be considered to be trivial or adequately shielded.

³⁴ For companies, “substantial” means more than 10 % of their consolidated balance sheets or earnings. For financial institutions, “substantial” means more than 10% of their underlying portfolio volumes.

³⁵ Except, in the case of tobacco production only, with an appropriate timeframe for phase out.

