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Bath Papers in International Development and Wellbeing

No: 68/2022

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Published by:
Centre for Development Studies
University of Bath
Calverton Down, Bath
BA2 7AY
https://www.bath.ac.uk/research-centres/centre-for-development-studies

ISSN 2040 - 3151

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CENTRE FOR DEVELOPMENT STUDIES

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Afterglow? The long-term influence of development finance institutions on firms' environmental, social and governance (ESG) policies.

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Abstract

The paper enquires into the long-term effect of development finance institutions (DFI) on the environmental, social and governance (ESG) policies of companies in which they have invested. It does this through a review of secondary data on the ESG policies of ten companies operating in Africa and India that were recipients of investment from CDC, the DFI owned by the UK government. We find that most of these companies did invest in and maintain ESG initiatives, and two may also have affected the adoption of ESG policies by larger organisations that took them over. But while this is consistent with the hypothesis that CDC can contribute to strengthening ESG policies (particularly through equity investment) the evidence was mostly circumstantial rather than explicit. To help fill this evidence gap we suggest that CDC and other DFIs can be more open about the ESG goals linked to specific investments, and investees about what they subsequently do. And while it may still be almost impossible to establish causal links between DFIs and ESG activities statistically, there is scope for producing stronger evidence of the link using qualitative impact evaluation methods.

Keywords: Additionality, CDC, development finance institutions, ESG policies, private sector development

1. Introduction

Over the last decade, government-owned and multilateral development finance institutions (DFIs) have enjoyed renewed importance. One driver of this has been the adoption of the Sustainable Development Goals (SDGs) and identification of a funding gap for their achievement amounting to trillions of dollars (UNCTAD, 2014; Schmidt-Traub, 2015; UN Task Force on Financing for Development, 2018). Given political constraints to mobilising more Official Development Assistance (ODA) this shifted focus on how public funding could be used to leverage larger amounts of private investment (Carroll and Jarvis, 2014:538; Oleksiak, Nicholls and Emerson, 2015; Mawdsley, 2018; Cohen, 2020). DFIs can be viewed as one response: a means both to mobilise capital for investment in low-income countries directly, and to encourage other investors to follow.[1] They are also estimated to manage 36% of assets worth US$ 715 billion classified as impact investments (GIIN, 2020).[2] This compares with OECD estimates that total global pension fund assets exceed US$ 50 trillion worldwide at the end of 2019 (OECD, 2020). The portfolio of the CDC Group (the UK's DFI), by comparison, increased from US$ 4.7 billion to US$ 7.1 billion in the five years between 2016 and 2020 (CDC Group, 2021b).[3]

The strategy of investing public finance in private companies is controversial, with some commentators expressing doubts about the extent to which public development goals can ever be aligned with the private interests of shareholders and company management (Benton, 2010; Mawdsley, 2015). For example, such investment privileges some firms over

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[1] A core argument for public funding of business, particularly Small and Micro Enterprises (SMEs) is a macro version of the poverty cycle. Incentives to investing in businesses in poor, small, isolated and fragile countries are weakened by the limited size of the markets in which they operate and hence limited scope for business growth. However, each new investment makes an incremental contribution to reducing market constraints for all other businesses. But while these pecuniary externalities may benefit all other investors, they cannot be appropriated by the pioneer investor (Collier, Gregory and Ragousis, 2020)

[2] Impact investment can be defined as investment intended to make a positive financial return and have a positive social and/or environmental impact (Oleksiak et al., 2015:205).

[3] In December 2021 the CDC Group announced a change of name to British International Investment (CDC 2021e). However, the empirical reference period of this paper predates this, and so the Group is still referred to throughout simply as CDC.

others with gains in at least some of the productive capacity, jobs and tax revenue supported offset by displacement of activities elsewhere. While this need not concern a private investor, the case for public funding is affected by the issue of "outcome additionality" (Carter, 2019), along with questions about "input additionality", or what other capital might have been mobilised anyway without the DFI's involvement (Oleksiak, Nicholls and Emerson, 2015).

Inseparable from questions about the quantity of additional investment required to meet the SDGs are questions about the *quality* of investment: to what extent induced expansion of selected businesses results in net increases not only in employment, but also workers' rights, for example (Mawdsley, 2018). These questions are particularly relevant to the overall impact of investors like CDC, that not only back a company with capital but also with their expertise and reputation, thereby acting as a potential catalyst for further funding.

Questions about additionality and impact raise the issue of transparency. While transparency may not be sufficient to guarantee public accountability (Fox, 2017) it is generally a necessary condition, and with public money being channelled through DFIs like CDC into private businesses there is a risk that how it is spent and with what impact becomes increasingly opaque (Mawdsley, 2018). This is particularly the case when DFIs employ third-party private funds as investment intermediaries. Partly for these reasons, some commentators view the blending of public and private finance with privatisation and deregulation as part of a wider neoliberal agenda with at best double-edged consequences for human development (Mawdsley, 2018). Others associate it with financialisation, and increased exposure of fragile economies to risks of the boom-bust cycles associated with overaccumulation of capital (Bayliss and Van Waeyenberge, 2017).

One argument in favour of public equity investment in private companies is that it could promote firms' adoption of stronger environment, social and governance (ESG) standards. A possible causal mechanism for this is the direct influence of the DFI through its representation on the company board, depending of course on how large a stake it holds. DFI involvement may also reinforce a company strategy to strengthen ESG credentials in order to secure finance on more favourable terms from investors who expect such standards. If DFI investors do influence ESG policies and practices within a firm, then their impact may also reach beyond their own direct involvement and encourage other firms to emulate them.

Debate over how actively firms should raise ESG standards - beyond compliance with the law - merges with the issue of the social responsibility of corporate leaders to stakeholders other than shareholders. Some commentators strongly support business leadership on ESG (e.g. Esty and Winston, 2009; Ruggie, 2013), while others are more sceptical (e.g. Vogel, 2005; Dauvergne and Lister, 2013; Bebchuk and Tallarita, 2020; 2021). However, the main issue here is not whether corporate leaders should independently pursue wider stakeholder interests, but how much and for how long DFIs influence the ESG standards companies adopt. There is a growing literature on how board composition affects ESG disclosure (Lagasio and Cucari, 2018), but we are not aware of any published literature on how the presence of DFIs or other impact investors affects this of actual ESG practices. What is clear, is disagreement over ESG policies within firms themselves. Bloomfield (2017), for example, explores the willingness of jewellery firms to move beyond a narrow remit to maximise short-term profits for shareholders. The existence of policy discretion, both among firms in the same sector and within firms, does suggest that there is scope for DFIs and other impact investors to take ESG policy into consideration in their investment decisions and to exert some influence over them.

Uncertainty over the counterfactual - what ESG changes companies might have been making even without being influenced by DFIs - again presents researchers with the methodological challenge of how to make causal claims of additionality and impact. While it may be difficult to attribute ESG related activities definitively or exclusively to DFI involvement, such a causal link is unlikely to be present if firms in which they invest make no reference to ESG policies or initiatives in company material. The absence of such information after a DFI has sold its investment in a firm would also weigh against such a contribution claim.[4] The empirical basis of this paper is information about ten companies that CDC had previously invested in, but whose shares it subsequently sold. Data was collected by reviewing the websites of the companies, as well as news articles and other sources, to establish their ESG policies and how

[4] Saltuk, Bouri and Leung, (2011) estimate that even ten years ago DFIs had divested of 10% of their investments.

they were changing. This information was then subjected to thematic analysis to understand drivers of change in these policies, including what causal influence CDC might have had, if any (Terry et al., 2017). Such associations in time do not prove causal links but are at least compatible with the possibility of their existence. The rest of the paper is set out as follows. Section 2 elaborates on the methods used to collect and analyse data, and on the limitations of the research. Section 3 presents findings in the form of three tables, and Section 4 concludes.

2. Methodology

The purpose of this paper is to explore whether development finance institutions (DFIs) have a lasting effect on the ESG standards of firms in which they invest. More specifically, it reports on web-based research into the changing ESG policies of a sample of small and medium-sized enterprises (SMEs) that received investment from CDC, the UK's leading DFI. The research proceeded by investigating selected companies through publicly available information on company websites, in the media and through third party websites. Company annual reports were particularly useful, as they not only reported on previous achievements but also on the companies' ambitions for future years. Several of these also included strong, direct language by Chief Executive Officers committing themselves to improving ESG policies, corporate sustainability and future aspirations. Findings for each company were extracted and tabulated in three tables corresponding to three core questions, listed below.

As anticipated, confidently attributing the ESG policies of the selected companies to CDC's investment proved difficult. One of the main signature indicators of a link was congruence between CDC's initial goals for the investment, as listed on their website, and the current policies of the company in question. These goals included achieving specific certifications or becoming part of associations like the Task Force on Climate-Related Disclosures (TCFD). If a company subsequently maintained these certifications and associations, then this was deemed consistent with the hypothesis that CDC had a lasting impact on its ESG policies.

Key informant interviews were also conducted with two industry experts, and these were especially useful in guiding the research. CDC itself also has a lot of information on its website, and this was used to select the sample of ten companies to research. The website allowed a workbook to be downloaded of archived investments. This was then filtered to select only companies, in which CDC had ceased to hold direct equity or debt investments. This sample of fourteen companies was then reduced to ten by excluding risk participation agreements, plus one firm which had been bought by another CDC owned firm. The final sample of ten is shown in Table 1. The decision to focus on direct equity and debt rather than intermediated investments and risk participation investments was based on advice from the industry experts that the lack of transparency and public information about these mechanisms would be a further obstacle to the research.

The research used a qualitative approach aiming to understand the causal drivers of ESG policies, including the influence of CDC and other investors. This focused on the following questions: how has ownership changed since CDC exited as an investor in the company; have these companies maintained ESG policies since CDC's exit; and can any of these ESG policies be attributed to CDC? Findings in relation to each of these three questions are presented in tabular form and accompanied by a reflective commentary: a simple but flexible approach to thematic analysis (Terry et al., 2017).

Table 1. Selected companies

Company	**Sector**	**Where**	**CDC investment**	**For how long?**
Au Financiers	Financial services	India	Debt	2013 to unknown
Green Infra Ltd	Manufacturing	India	Equity	2013 to 2015
Pristine Logistics	Manufacturing	India	Equity	2015 to 2018
Ujjivan Ltd	Financial services	India	Equity	2015 to 2017
Bharti Airtel	Telecoms	India & Africa	Debt	2013 to 2015

DFCU Ltd	Financial services	Uganda	Equity	1964 to 2019
Export Trading Group	Agri/food	East Africa	Equity	2012 to 2016
INT Towers	ICT	Nigeria	Debt	2015 to unknown
Jumia	Online consumer services	Africa	Equity	2016 to 2020
Standard Bank Malawi	Financial services	Malawi	Debt	2014 to unknown

Sources: See the Appendix

The original research plan was also to conduct live-on-line semi-structured interviews with staff from each selected company to gain a better understanding of CDC's influence on their ESG policies. However, staff proved to be very unwilling to be interviewed. Time constraints associated with the research being part of a postgraduate dissertation project undertaken working full-time also limited the scope for scheduling interviews. Having found more information than expected in the public domain, the decision was made to rely only on publicly available sources.

With more time it would have been useful to triangulate the secondary evidence collected here with direct interviews with CDC staff, particularly those who had been working for it long enough to remember the original investments. However, one merit of the secondary data used is that it was not explicitly solicited, which reduces the likelihood of strategic bias or confirmation bias that might affect what CDC staff themselves would have had to say.

A further limitation of the research was the focus on just one DFI, and the small number of investments that it had existed since it resumed investing directly in companies rather than operating through third party funds. With a larger sample, the research could have focused on one industry or region, thereby generating more directly comparable information. With CDC also aiming to be a long-term investor, the investments researched are shorter term so it cannot be claimed that the ten firms are representative of its full portfolio.

3. Findings

This section presents three tables setting out the findings, with source citations for each company presented in the Appendix.

3.1 Changes in company ownership

Of the ten companies in question, six were listed on local stock exchanges, while Airtel Africa and Jumia were listed in New York and London. Four of the ten companies had ongoing investment from various DFIs. It's possible that their presence will serve to maintain board level support for ESG policies, but at the same time, their involvement suggests limits to the success of CDC in 'crowding in' private investment (Carroll and Jarvis, 2014; O'Donohoe et al., 2010). For example, INT Towers has significant DFI ownership from the Dutch FMO and the World Bank's IFC, which makes any direct attribution of its ESG standards to CDC more difficult (see below). However, co-investment of CDC with other DFIs could be achieving greater board level influence over company policies, with DFIs also offering different skill sets.

One of the most interesting and successful CDC investments was in Green Infra Limited, with CDC selling their equity stake to Sembcorp, a large Singapore based engineering and construction group, in 2015. This company was already environmentally focused as a renewable power producer, but with the help of CDC it was able to improve its ESG credentials, and this is reported to have been a factor in attracting Sembcorp to invest in it, as part of its wider climate action strategy. Hence this is an interesting example of CDC potentially being able to catalyse positive environmental impact that extends beyond the timing and scope of its own investment.

Table 2. Changes in ownership of the selected companies

<u>Au Financiers</u> Publicly owned. The company was listed in 2017 on the Indian Fortune 500 Exchange. Former private equity. The firm had various private equity backers, including Indian Private equity firms Motilal Oswal, Chrys Capital and the US PE Firm Warburg Pincus. Former DFI ownership. The IFC used to also have a stake.
<u>Green Infra Limited</u> Owned by Sembcorp (more than 60%). Sembcorp is a large utilities and shipbuilding group. Sembcorp itself is publicly traded but is 49.3% owned by Tamesek Holdings, Singapore's sovereign wealth fund.

Pristine Logistics

IDFC Infrastructure Fund II. This fund bought into the company at a similar time as CDC exited it. CDC maintains an intermediated investment into this fund, so has not fully exited investment but is not in direct control and has likely diluted its stake.

Government of India. The Indian government set up this fund to encourage infrastructure investment and remains the largest investor with a 16.4% stake.

Ujjivan Financial Services Private Limited

Publicly owned (BSG & NSE). The company had an IPO in 2019 which was popular and oversubscribed. Most shareholders are Indian residents.

Previous private equity ownership. CDC seems to have sold its stake in 2017, selling to Cinnamon Capital. It seems questionable that they were interested in the ESG credentials of the firm, as they went on to sell their 8% stake three months later for a similar price to what they bought CDCs stake.

Bharti Airtel

Publicly owned (LSE). Was previously a part of Bharti Airtel which is mostly owned by the founder Sunil Munjal and his family. The African division was sold through an IPO to reduce a net debt of close to 4 billion USD as a price war in India was putting pressure on the company to focus on its core market.

Previous private equity ownership. Before the IPO the company had already fundraised from over 6 private equity firms including Wharberg Pinicus, Singtell, Tamasek, and direct investment by Sunil Munjal.

DFCU Limited

Publicly owned (USE). DFCU was listed on the Ugandan Stock exchange in 2004 when CDC still had an equity stake.

Currently mostly DFI owned. Even though it is publicly listed, the current ownership is 58.7% owned by Arise BV, which is an investment company backed by the DFIs Norfund and FMO, as well as Netherlands Bank, Rabobank and nearly 10% owned by the IFU, the Danish DFI. Although CDC has exited, it is still owned by many other DFIs.

Export Trading Group (ETG)

Privately owned. The Mitsui & Co conglomerate seems to be one of the largest owners, although they do not seem to be particularly ESG focused but there is little available information. Pembani Remgrow Infrastructure fund is another owner focused on sustainability, specifically mentioning ESG as a key aim within its portfolios so may be adding an ESG influence.

DFI debt arrangements. The company retains significant debt arrangements with DFIs, with CDC itself lending more than 100 million USD and a more recent arrangement with the DFIs FMO, FinDev Canada and OECB lending them 115 million USD in 2021.

Previous private equity ownership. Who CDC sold to is not clear, but it was previously backed by private equity capital from Carlyle Group until 2015 and Standard Chartered Private equity who then sold their stake to Mitsui & Co.

INT Towers Privately owned. Shareholders include the founders and management as well as private equity and infrastructure investors and several sovereign wealth funds. DFI owned. The Dutch development bank FMO and the World Bank DFI, the IFC are also shareholders.
Jumia Publicly owned (NYSE). The company was listed on the NYSE in 2019 before CDC's exit in 2020. Previous private investment. It was previously backed by German investment firm Rocket Internet, as well as other investors including MTN, AXA, Goldman Sachs Orange as well as CDC. MTN became the largest investor in 2019 with a 40% stake. MTN is a South African mobile operator.
Standard Bank Malawi Publicly owned. The wider Standard Bank Group is primarily listed on the Johannesburg exchange, with Standard Bank Malawi being listed on the Malawi Exchange. The overall group is 20% owned by Bank of China with the South African governments pension fund being the second largest shareholder at 12.4%.

Sources: See the Appendix

3.2 Evidence of maintenance of ESG policies since CDC's exit

The right-hand side of the table summarises evidence obtained to indicate that the selected company have maintained ESG policies. Secondary evidence suggested that four of the companies (Green Infra, Ujjivan, DFCU, and Export Trading Group) had clearly done so, and five of the other six had to some extent or signalled continuing intent to do so. Only in the case of one company, Jumia, was it not possible to identify continued ESG policies at all. The table also reveals a sharp difference in ESG policies highlighted publicly by each company. The strongest positive example was Green Infra, whereas Pristine Logistics falls at the opposite end of the spectrum. In the most positive cases, companies had mapped out where they perceived ESG risks and issues to be located and come up with explicit policies to address them. They also elaborated on how they would be accountable for their performance in doing so, through a designated internal committee, external assurance, or membership of an industry body with ESG credentials, for example. Several had signed up to ISO standards, and Ujjivan was part of the Smart Campaign.

Overall, it is a positive finding that all but one of the ten companies could point towards having maintained some ESG policies. Jumia was the exception. Although it could to have put into place more internal controls and compliance, they experienced problems with fraud even while still in CDC ownership, and senior leadership remained headquartered in Berlin rather than Africa. CDC exited the investment quickly in early 2020 when the stock price was down more than 85% after its New York IPO. Although not mentioned on the CDC website its quick sale suggests that this was viewed internally as a failed investment.

The evidence presented so far is consistent with the hypothesis that ESG policies were more sustainable in companies in which CDC made equity investments. A possible explanation for this is that CDC was more closely involved with the management of these firms. However, this would need further investigation. In addition to receiving equity rather than debt investment from CDC three of the four companies that most conspicuously sustained ESG initiatives continued to receive DFI investment after CDC sold its shares. Moreover, two firms which kept ESG policies in place were acquired by larger corporations. While Sembcorp's acquisition of Green Infra was part of a corporate sustainability strategy it is not clear whether ESG considerations influenced the decision of Mitsui & Co to purchase ETG, but there was at least no reversal of these policies. This suggests that one positive role for DFIs is to catalyse improvement in ESG policies of SMEs, which then become attractive targets for larger firms seeking to strengthen their own profile in this regard. This then results in ESG standards being raised more rapidly or on a larger scale than would otherwise have occurred.

Table 3. Evidence of maintenance of ESG policies since CDC's exit

Reason for CDC investment	**Have they maintained ESG policies after CDCs exit?**
Au Financiers	
CDC invested 20 million USD in 2013 as part of a joint debt facility of 60 million USD led by the Dutch DFI FMO, as well as an infrastructure guarantee fund which invested 20	Social responsibility policy. The first policy of the companies SR policy is to, "Ensure an increased commitment at all levels in the organization, to operate its business in an economically, socially and environmentally sustainable manner, while recognizing the interests of all its stakeholders" (AU Small Finance Bank, p1 2020). ESG language. Their website mentions inclusivity, stakeholder

million USD. The investment was aimed at expanding the commercial vehicle finance business and helping to expand its lending to SMEs. CDC also aimed to support the development of their environmental and social management system.	dialogues, and sustainable value for all stakeholders. Lending to small businesses. The website has a section called 'driving financial inclusion in India'. It clearly states its core goal to bridge the financial gap in rural India. They do this by lending without income proof. This helps low- and middle-income individuals and micro/small businesses who have business potential but cannot get financing from other channels. These individuals are called creditworthy but are from a weaker section of society. This fits in well with CDCs goals. ESG associations. They work to be in sync with the national voluntary guidelines on social, environmental and economic responsibilities of business (NVG's) which were released by the Indian Ministry of Corporate Affairs in 2011. They prepared a business responsibility report which set out their ESG policies in good detail. They have self-published a 'sustainability: Staying true to our commitments' report, which could be an attempt at providing self-accountability and being transparent.
Green Infra Limited	
CDC made a 16 million USD equity investment into the company in 2015. They exited with a financial return of 14%. The main aims and impact of the investment were to create more jobs, create power for more people in India, and to do so in a renewable manner. CDC also helped the company to strengthen its relationships with the communities living near the facilities. This meant creating a program to renovate 25 schools, develop 8 health care centres, and provide clean drinking water in a region facing long term drought.	Climate action plan. The larger Sembcorp company has a climate action plan, which specifically mentions the 2015 Paris Agreement and Sembcorp's wish to support it. They have mapped out their current emissions footprint, as well as their action targets and commitments to achieving net zero emissions by 2050. To do this they manage their climate risks and opportunities in line with the Task Force on Climate Related Financial Disclosures' (TCFD) recommendation which CDC also advocates. Part of the renewable's growth journey was acquiring Green Infra in 2015 in a pivot towards renewable energy. Sustainability report. They have published a sustainability report in accordance with the Global Reporting Initiatives. ESG associations. The sustainability report indicates that they are part of: CDP (formerly the Carbon Disclosure Project); Energy Intelligences top 100 Green Utilities report; FTSE4 Good index Series; MSCI ESG Ratings; Sustainalytics
Pristine Logistics	
In 2015 CDC invested	ISO certificates. The main focus seems to have been on these

directly with an equity stake to help build essential infrastructure in low-income states such as Uttar Pradesh and Bihar. It is not entirely clear, but the CDC website shows that their direct equity holding ended in March 2018, the same time which the India Infrastructure Fund II managed by IDFC Alternatives invested directly into it. CDC is a large investor into this Indian infrastructure fund which aims to help bridge the significant infrastructure shortage faced in India, helping to drive employment directly and indirectly. CDC also aimed to improve workforce safety and environmental management practices in the firms, mostly through the ISO certificates.	qualifications, which seems to have been the tool they used to implement ESG policies in the company. BIS, who run these certifications, mention on their website, for example, that the certification helps demonstrate commitment to the UNSDG's and encourages shareholder investment due to a commitment to social sustainability through ESG benchmarking. This suggests that these do correlate with CDCs ESG policies which are also aligned with the SDGs. Environmental policy. There is a section of the website called Health, Safety and Environment. The environmental policies are vague such as "energy usage reduction drives" and are more focused on small scale savings such as changing light fittings. No acknowledgements of current emissions could be found which as a logistics firm operating lorry and rail freight would surely be an environmental concern.
Ujjivan Financial Services Private Limited	
CDC invested 26 million USD in 2015, as part of a larger equity financing round. The investment would allow Ujjivan to provide more loans across a wider geographic area. CDC also mentions they played an active role in developing environmental and social policies, with an institutional code of conduct, and joining the 'smart campaign' that	CSR policy. Their CSR policy document starts by reaffirming that the "Bank's mission and objective is to provide a full range of financial services to the economically active poor and enable customers to lead a better life and reaching out to unserved and underserved communities" (Ujjivan Small Finance Bank, 2021). The CSR principles followed by the bank mentions sustainability, promotion of human rights, interests of all stakeholders, environmental protection, inclusive growth, and equitable development. Business responsibility report. This is linked to the CSR policies and claims to have implemented all other than one of the policies. This is however an internally created document so although it does show self-regulation it is not independently created.

promotes responsible lending in micro finance institutions.	<u>The Smart Campaign.</u> The Smart Campaign developed the financial consumer protection standards, establishing a rigorous certification program. This was discontinued in 2020, due to the development of the Client Protection Standards, which were managed by SPTF and CERISE. Ujjivan is listed as a previously certified organisation on their website. The certification lasts 4 years so it is unclear whether they still have this or if it has run out given the CDCs involvement ended in 2017, around 4 years ago. They are used as a good example in the Social Performance Task Force implementation guide though and as they have done a webinar with SPTF this also suggests that they are still working together and adhering to their standards.
<u>Bharti Airtel</u>	
CDC provided 30 million EUR as part of a 205 million EUR debt facility, by a consortium of DFIs helping it to expand its telecoms provision across 17 African countries, including some of the least developed states. The aim was to increase the availability of mobile telecoms in sub-Saharan Africa, which was only 47%, far lower than other developing countries which is seen as constraining economic growth and development. The investment was meant to create 1,300 new direct jobs by 2016 and create many more indirect jobs. The investment was also aimed at lowering roaming charges and increasing tax revenues through licence and access fees.	<u>Sustainability goals</u>. They mention sustainability, and specifically the SDGs in their most recent strategic report. They are in the process of developing their sustainability goals in 2021, which is meant to “demonstrate to our stakeholders that Airtel Africa is a responsible corporate citizen” and “improve our ESG rating” (Airtel Africa, 2021a). They aim to target six of the SDGs: (1) quality education, (2) gender equality, (3) decent work and economic growth, (4) industry innovation and infrastructure, (5) reduced inequalities, (6) responsible consumption, and production. Some of this work has included free internet services to schools and libraries to promote education, and within the company as well with aims such as achieving diversity and inclusion at every level of the business. <u>Internal reporting structure.</u> To oversee these policies, they are implementing an internal reporting structure, with clear responsibility within the board, and a sustainability champion in the board. <u>Tax strategy.</u> CDC also directly mentioned helping to increase tax revenues through this investment. It is therefore interesting to see that Airtel Africa has a specific tax strategy document that mentions being “committed to being a responsible and collaborative taxpayer that supports the social and economic wellbeing of the communities where we operate” (Airtel Africa, 2021b p1). They commit to making decisions based on commercial principle aligned to economic activity rather than undertaking any contrived or artificial structuring.
<u>DFCU Limited</u>	

CDC had been involved for 55 years since 1964 through direct equity and loans. Alongside other DFIs they have helped the bank to strengthen existing environmental and social management systems. In that time CDC created the women in business program and has been a long term supporter with its 60% equity stake being reduced to 15% in 2013 following a rights issue at the bank. This has been a long and key investment for CDC, showing its 'patient capital' credentials.	<u>ESG policy.</u> This can be seen in their annual report, the policy is not only in relation to their own products and services, but also through their supply chains, through a supplier selection and evaluation process. This also applies indirectly in the financing it provides, as they have an ESG framework which forms part of its guiding principles. The same report mentions how they recognise the significant milestones of the Paris Agreement on climate change and the SDGs, which is aligned with CDC's ESG policy goals. They operate a 'do no harm' principle in financing decisions, but beyond this, they prioritise opportunities to create local benefits and stimulate communities taking all relevant ESG considerations into account. <u>Internal and external verification.</u> The annual report also specifically mentions that their information gathering process includes verification by internal and external assurance providers, and job applications on their website show they have employees dedicated to developing and overseeing ESG policies and procedures which shows they are actively committing resources to these policies. <u>Gender diversity.</u> The annual report mentions gender diversity with 52% women employed by the business in 2019, including 50% of executive management positions being held by women. This shows they are also taking on board the gender equality ideals they are promoting externally and setting the example themselves. The program has had some success with over 1,200 women benefiting from the project as well as an expo in 2019.
<u>Export Trading Group (ETG)</u> CDC directly invested 23.5 million USD in ETG in 2012. The business grew to 2.8 billion USD in revenue from 884 million USD. CDC worked with other investors and lenders to improve the environmental and social impact of ETG's trading operations. CDC is still involved with ETG, having invested 100 million USD into a debt arrangement with them in	 <u>UN Sustainable Development Goals</u>. They specifically map out the SDGs they are prioritising such as: (1) zero hunger, (2) no poverty, (3) climate action etc. They also have specific ESG policies signed by the chairman, which are backed up in a key environmental and social management system document that set out how they will comply with their ongoing commitments in a large company with many moving parts and different locations. This shows a clear commitment to the implementation of the policies. <u>ISO standards.</u> They also maintain ISO standards through the management framework in order to meet the expectations of all stakeholders including DFIs. The group operating facilities are certified with ISO standards which have high health and safety, sustainability, and environmental standards to meet.

2020.	Mapping climate risk. ETG has also recently become involved in a research project, partnering with Wageningen University, FMO Development Bank, and other private business, to map climate risks for prioritisation and define areas which can be feasibly improved. This seems to show a strong commitment not only to current ESG standards but to furthering environmental progress across ETG's business. ESG associations. They are part of the Cocoa and Forest Initiative (CFI) as a signatory and have their own foundation called Beyond Beans. They are also in partnership with the Empowering Farmers Foundation (EFF), which helps to leverage ETG's sourcing model to improve agricultural productivity and profitability driving socio-economic growth of local market economies through skill development and knowledge transfer.
INT Towers CDC Invested USD 20 million to support continued expansion of telecommunication services in Nigeria. CDC also helped to increase their environmental and social management system. Specifically, through reducing diesel consumption and installing hybrid and solar power solutions throughout the country. Health and safety were also a focus and was claimed to also have been significantly improved.	Sustainability report. This report states the company became a signatory to the UN Global Compact in 2020, well after CDC involvement making direct attribution to CDC difficult. The report also maps their sustainability initiatives to the UNDGs and how they are supporting the Compact's ten principles in areas such as human rights and labour standards. External assurance. The report also mentions PwC has provided assurance over certain sections of this. This means they are not only mapping out their responsibilities but using a potentially less biased third party to help them do this more effectively. CEO ESG comments. The CEO specifically mentions ESG topics, in his introduction to the sustainability report and also affirms a commitment to the Global Reporting Initiatives guidelines on sustainability reporting, another strong indication they are following a set of guidelines to keep themselves accountable internally and externally. ISO health and safety standards. They are currently working towards these certifications. It is still a priority for the company but not one they were able to get accredited when CDC was still involved.
Jumia CDC aimed to support the growth of the business into financial services and local manufacturing. The funding mobilised more	Code of conduct. One of the main aims within the ESG framework for Jumia was to set up a code of conduct for the suppliers on the marketplace. This code of conduct clearly failed with allegations of fraud and concealed losses as they struggled with improper orders from its own commissioned

European DFI funding including Germany's DEG, the Dutch FMO and Belgium's BIO. CDC also helped to support the development of an environmental and social management system, as well as a code of conduct for its suppliers in line with the Ethical Trading Initiative's base code. Given that companies such as Mastercard which invested at a similar time lost significant amounts of capital it is likely CDC lost considerable capital on this investment.	agents. One of the founders and CEOs mentioned they had now resolved these issues through internal controls and compliance, but this is what CDC mentioned they were already trying to put into place. Other governance controversies. Some governance decisions have also been controversial as it is headquartered from Berlin, with a technology and product team in Portugal, and the senior leadership team in Dubai in the UAE. In addition to this, the owners are French, and the company held its IPO in New York. Some have argued this is a western company co-opting an African identity for its own profit rather than a development focused company. The fast exit of CDC after these controversies seems to suggest that they sold their stake when possible, distancing themselves from these issues, so it likely isn't seen as a successful investment.
Standard Bank Malawi	
CDC made a 25 million USD loan to SBM to support efforts to increase lending to local businesses, particularly those in need of foreign exchange which have often faced shortages in Malawi. The loan was intended to help the bank manage its foreign exchange risk and run a stable loan book, helping to support the country's export economy, driving jobs growth and economic development. CDC also ensured international environmental and social standards were met in the delivery of all the loans provided by the facility.	ESG Reporting. In the CEO's statement he mentions aligning the company with the Task Force on Climate Related Disclosures (TCFD), which the CDC also advocates. This appears to be a new process though as they are still reviewing their current systems and adopting a new risk framework, so they are still in the process of aligning themselves with this. Paris Agreement alignment. They claim to be aligning themselves with the Paris Agreement on climate change, though there is a significant caveat in this comment which relates to balancing job creation and power needs for energy producing countries with environmental concerns. This may be a valid argument but may show there is some conflict within the decision makers at the company. Sustainable finance solutions. The company appears to be pivoting towards the growing sustainable finance solutions business. It has even issued its first 'green bond' through a private placement with the World Bank's IFC. This 200 million USD lending facility will allow the bank to lend to green and social projects, much like the CDC loan did.

Sources: See the Appendix

3.3 Attribution of ESG policies to CDC

This last section reports on evidence linking CDC to ESG policies of the selected companies. Most of this was circumstantial, rather than explicit – see Table 4. For example, CDC is a strong advocate of the Task Force on Climate Related Disclosures, and several of the companies are aligned to it, but this does not prove a causal link. Another CDC specifically proposed that Airtel should become a responsible and collaborative taxpayer, and Airtel does indeed have in place a specific tax policy. But no documentation was located attributing this directly to CDC influence. In contrast, a statement by the Chief Treasury Officer of ETG does explicitly link CDC to its ongoing ESG focus. However, this was in the context having CDC recently invested in a new debt arrangement. Overall, it is plausible that CDC has played a role in promoting ESG policies in several companies, many of which have persisted. But it is not possible to say much from public sources about the mechanism by which influence was exerted or its relative importance. And it is equally plausible that some ESG policies have not been influenced by CDC. Bharti Airtel, for example, has developed its ESG strategy only recently – six years after it repaid the debt it owed to CDC.

CDC itself could do more on its own website to inform the public of its legacy effects and continuing links with companies. Out of the ten investments researched half did not have a filled in section under 'impact' (CDC Group, 2021a). While CDC can point to having been subjected to a series of set-piece reviews commissioned by the Independent Commission on Aid Impact (ICAI) these routine data gaps make it harder to make an informed judgement about CDC's legacy as a pioneering investor and corroborate the view of Mawdsley (2018) that DFIs can be more transparent in reporting on the long-term effects of their investments.

Table 4. Attribution of ESG policies directly to CDC

<u>Au Financiers</u> Although the company's mission statement does align well with what CDC has hoped to achieve with some of its ESG principles and the concept of financial inclusion, there was little to link this with CDC explicitly.
<u>Green Infra Limited</u>

Sembcorp, who bought Green Infra, have a climate action plan which includes managing their climate risks and opportunities in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations which CDC also advocates as part of its ESG strategy. Other mention of CDC were restricted to the period of its investment, rather than relating to impact once it exited.

Pristine Logistics

CDC had initially sought to help the company achieve environmental management and health and safety certificates, which the company did achieve before CDC had exited.

Ujjivan Financial Services Limited

One of the main goals of CDC was to establish an institutional code of conduct and promote joining the Smart Campaign. This was discontinued in 2020, but they maintained a relationship with the Social Performance Task Force which took over from it. This can be seen as a legacy of CDCs involvement, even though no explicit mention is made of this.

Bharti Airtel

They have done a lot of work on their ESG policies recently, but CDC exited more than six years ago, and there is no reference linking this to CDC's debt investment.

The company does have a specific tax strategy document, committing to being a responsible and collaborative taxpayer, and this was one of CDC's goals.

DFCU Limited

There were some articles quoting the chairman of the board who explicitly attributed much of their success to CDC's long-term support. The DFCU website clearly states CDC's role in founding DFCU. But as they are currently owned by other DFIs it is difficult to assess CDC's specific contribution to current ESG policies.

Export Trading Group (ETG)

The Chief Treasury Officer of ETG Anish Jain is quoted as saying "Given CDC's focus on ESG Frameworks, this facility marks a solid achievement for ETG to further strengthen its world class supply chain and mitigate risks in its operations. Including this CDC capital commitment, ETG has one-third of the loan book linked with ESG and sustainability standards" (ETG, 2021e). This is as strong endorsement of CDC's historical influence on ESG policies, but reinforced by ongoing influence, as CDC began a new debt arrangement with them for 100 million USD in 2020.

INT Towers

There was nothing found directly attributing their ESG policies to CDC. With the company still having other DFIs as shareholders it would also be difficult to attribute ESG policies exclusively to CDC.

Jumia

Due to the governance issues faced when CDC was still a shareholder and its relatively rapid exit, it seems unlikely that any ESG policies can be attributed to it.

Standard Bank Malawi

Their ESG report mentions aligning the company with the task force on climate related disclosures, as well as the Paris Agreement on climate change, but this seems to be a relatively new development rather than something that can be directly attributed to CDC.

Sources: See the Appendix

4. Conclusions

This review reveals that companies in which CDC invested have been developing and maintaining ESG policies and suggests that CDC itself is likely to have made some contribution to this, particularly where it made and sold equity investments. It also identified two cases in which CDC invested in companies that were subsequently acquired by much larger corporations along with the ESG expertise they had built up. This suggests a particularly effective route to scaling up impact, and hence a potentially useful catalytic role for DFIs such as CDC in promoting ESG standards.

However, the research also highlights the methodological challenges associated with establishing such contribution claims. These partly arise from the analytical problems associated with establishing what might have happened anyway (a credible counterfactual) as the foundation for additionality claims. This applies to the question of how firms might have been financed in the absence of CDC investment, as well as what additional ideas and influences the firms were exposed to anyway. It also applies to the problem of establishing whether additional funds and influences were a necessary condition for ESG initiatives they subsequently undertook rather than incidental to them.

These are difficult questions to address, and ones that may well be impossible to answer in a definitive way through statistical analysis of observational panel data about the practices and performance of firms (Carter, 2019). However, this paper demonstrates that there is also scope for testing aspirations and claims to such impact against circumstantial evidence: while evidence of ESG activities among the firms reviewed here does not prove CDC additionality, the absence of any such evidence would have seriously undermined the credibility of any such claim. This argument puts a premium on DFIs such as CDC being transparent about the ESG goals they link to different investments, while also encouraging the firms they invest in to be more transparent about their ESG activities – and perhaps indeed *requiring* them to put more information about these activities in the public domain. Availability of more evidence of this kind would establish an empirical base for assessing the causal claims linking DFIs and ESG activity qualitatively using such methods as process tracing and contribution analysis.

This research has also focused on the thin end of a wedge of graduates of CDC investment that is set to expand rapidly, and so it is timely to suggest that CDC can do more to increase and better evidence publicly available about companies in which it has invested. During the recent period of structural change and rapid expansion it is understandable that CDC has not given much priority to researching the performance of companies from which it has disinvested in this way. But if it is to sustain its claims of long-term impact then more attention should be given to researching companies over longer periods in this way. CDC is well placed to do this itself but should also facilitate independent research of the same kind by sharing data and making its own investment goals more transparent.

Lastly, this research has been limited by the focus on just one DFI, and the relatively low number of post-investment firms from which to choose. But it points the way for further research covering other DFIs and impact investors. With more research it would also be possible to use open-ended interviewing of company executives to explore their perception of reasons for variation in ESG practices for firms across selected sectors and countries, taking into account multiple potential causal drivers - with past DFI investment being just one of them.

Acknowledgements

The first draft of this paper was based on Stephane Kelk's dissertation from the MSc in Humanitarianism, Conflict and Development at the University of Bath. This was revised and edited by James Copestake. Helpful comments were also received on an earlier draft from Aurelie Charles, Chris Coles and Joe Devine.

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Appendix- Sources of data for the Tables 1-4 by company

<u>CDC Group</u>

CDC Investment Information – (CDC Group, 2021a)

CDC Climate change strategy including TFCD alignment – (CDC Group, 2021)

<u>AU Financiers</u>

Ownership – (Gooptu, 2013), (FortuneIndia, 2021)

CSR Policy – (AU Small Finance Bank, 2021a)

Business Responsibility Report - (AU Small Finance Bank, 2020b)

ESG Language - (AU Small Finance Bank, 2021b)

ESG Associations – (AU Small Finance Bank, 2020a)

Green Infra Limited

Ownership – (Barman, 2015), (Nikkei Asia, 2021)

Climate Action Plan,(Sembcorp, 2021)

Sustainability Report - (Sembcorp, 2020)

Link to CDC – (Sembcorp, 2016)

Pristine Logistics

IDFC Infrastructure Fund II Ownership - (CDC Group 2021c, 2021)

IDFC Ownership structure and History - (The Economic Times, 2021)

Health, Safety, and environment - (Pristine Logistics, 2021b)

ISO Certifications – (Pristine Logistics, 2021a)

Link to CDC - (Business fights poverty, 2018)

Ujjivan Financial Services

Ownership – (Business Standard, 2017), (Agarwal, 2019)

CSR Policy – (Ujjivan Small Finance Bank, 2021)

Business Responsibility Report – (Ujjivan, 2020)

The Smart Campaign – (The smart Campaign, 2021)

Ujjivan presentation example for SPTF - (Social Performance Task Force, 2020)

Ujjivan Investor report – (Ujjivan, 2019)

Bharti Airtel Africa

Ownership – (LSEG, 2019), (Sarkar, 2019), (Private Equity Wire, 2021)

Annual Reports and sustainable development goals – (Airtel Africa, 2021a)

Tax strategy – (Airtel Africa, 2021b)

ESG Rating – (Sustainalytics, 2021)

DFCU Limited

Ownership – (USE, 2021), (DFCU, 2021), (Arise, 2021)

Annual report Including sustainability report - (DFCU, 2019)

Code of Ethics – (DFCU Group, 2021)

Gender Equality Exo – (EABW News, 2019)

Links to CDC – (CDC Group, 2019), (DFCU, 2021)

Export Trading Group (ETG)

Ownership – (Mitsui & Co, 2017), (Pembani Remgro, 2021), (ETG, 2021a), (AVCA, 2015), (Sinha, 2021)

Sustainable Development Goals – (ETG, 2021b)

Social and Environmental Management System – (ETG, 2020)

Research Project mapping climate change risk – (ETG, 2021d)

Sustainability project Kenya – (ETG, 2021c)

Link to CDC – (ETG, 2021e)

INT Towers

Ownership – (IHS Towers, 2021a), (Wendel Group, 2021)

Sustainability Report – (HIS Towers, 2020)

Environment and climate change – (IHS Towers, 2021b)

Jumia

Ownership – (Paul, 2020), (Hale, 2020)

Governance Failures – (Kazeem, 2019)

CEO Governance Interview - (Kene-Okafor, 2021)

Other Governance Controversies – (BBC, 2020)

Standard Bank Malawi

Ownership - (Standard Bank, 2021), (Standard Life Malawi, 2020)

ESG Report – (Standard Bank, 2020)

Sustainable Finance Solutions – (ESI Africa, 2020)

Media Link to CDC – (Nyasa Times, 2014)