

Code of Responsible Investing

March 2017

1. Context of the Code of Responsible Investing

1.1 Rationale for the Code

CDC believes it should invest in a responsible fashion, considering environmental and social (“E&S”) and governance (including business integrity) (“ESG”) matters. Effective management of these matters reduces risks to workers, the environment, local communities and other stakeholders, and implementation of good ESG practices is increasingly associated with a wide range of business benefits including access to markets, reduced staff turnover, cost efficiencies in production and enhanced stakeholder relations.

The Code of Responsible Investing (this or the “Code”) sets out CDC’s requirements in relation to all the investments it makes through its direct and intermediated business lines. It reflects international standards and practices including the International Finance Corporation’s (“IFC”) Performance Standards, and the [UN Guiding Principles on Business and Human Rights](#). It also reflects CDC’s requirements in relation to climate change.

CDC recognises that not every business in which it invests will be in compliance with this Code at the date of investment. In such cases, CDC (or its Fund Managers and Financial Institutions) will work with the business to develop an Action Plan that seeks to achieve compliance over a reasonable time frame, taking into consideration the risks and opportunities specific to that business and its size and resources. CDC will only finance investment activities that are expected to meet the requirements of this Code within a reasonable period of time. Persistent delays in meeting these requirements may trigger options for CDC to cease funding, exit an investment and/or take remedial action.

1.2 Structure of the Code

The Code is presented in six schedules that apply variously to CDC and its investments.

Schedule 1 describes CDC’s role and responsibilities in helping Fund Managers, Financial Institutions and Portfolio Companies implement the Code, as well as commitments to monitor implementation of the Code across its portfolio of direct investments, to review and update the Code as necessary, to report on its implementation and to provide a grievance mechanism for stakeholders to report alleged breaches of the Code;

Schedule 2 describes the components and structure of ESG management systems applicable to Fund Managers and certain Financial Institutions in which CDC invests;

Schedule 3 describes ESG requirements applicable to all Fund Managers, Financial Institutions and Portfolio Companies, separated into E&S and business integrity sections and covering areas such as working conditions, labour rights, access to remedy and sanctions;

Schedule 4 identifies additional E&S requirements which apply in certain circumstances where higher E&S risks or opportunities may be apparent;

Schedule 5 identifies international and other good ESG practices which CDC encourages its Portfolio Companies to achieve beyond the requirements of the Code;

Schedule 6 describes the Excluded Activities for which CDC's capital cannot be used;

The Glossary defines certain terms used in the Code.

1.3 Policy Sponsor and Maintenance

CDC's Chief Operating Officer is the sponsor of this policy and oversight of its implementation is provided by CDC's Development Committee. The Environmental and Social Responsibility and Business Integrity Teams within CDC are responsible for the implementation of the Code. As this is an area of developing policy externally, it is anticipated that this Code will continue to develop over time.

2. The Code of Responsible Investing

CDC shall assure itself that investments it makes are consistent with the obligations of the Code. CDC may use a range of commercial tools to effect this, depending on the nature and context of the investment, including due diligence, contractual representations, non-contractual undertakings, covenants and exit rights.

1. CDC's capital shall not be invested, either directly or indirectly, in an Excluded Activity.
2. CDC shall maintain a responsible investment management system, as outlined in Schedule 1.
3. Every Portfolio Company shall comply with the Requirements.
4. Every Fund Manager shall:
 - a. maintain management systems that satisfy Schedule 2; and
 - b. comply with the Requirements.
5. Every Financial Institution shall:
 - a. maintain management systems that satisfy Schedule 2 with respect to the management of E&S issues if it uses CDC capital in relation to a portfolio that CDC concludes contains a substantial exposure to businesses or projects with potential for significant adverse social or environmental impacts;
 - b. comply with the Requirements; and
 - c. ensure that each business that such Financial Institution invests in complies with Applicable Laws.
6. However, if a Portfolio Company, Fund Manager or Financial Institution is not in compliance with any of the requirements in Sections 3, 4 and 5 above at the time of the investment, it shall be deemed to be in compliance with the applicable requirement provided it agrees to and implements an Action Plan.
7. So long as CDC is invested in a Portfolio Company, 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 Portfolio Company otherwise remains in compliance with the relevant provisions of this Code.
8. CDC, Fund Managers and Financial Institutions shall promote, and where practicable support, any Portfolio Company that seeks to implement the recommended practices promoted by CDC in Schedule 5.
9. If CDC co-invests (including with other development finance institutions), CDC may elect to apply requirements differing from, but substantially similar to, those set out in Schedules 3, 4 and 5 in this Code in order to harmonise the requirements of all co-investors.

Schedule 1

Responsible Investment Management Systems for CDC

CDC shall:

- ✦ assist its Fund Managers and Financial Institutions to establish and maintain ESG management systems, including through the provision of training and guidance materials;
- ✦ assist its direct investments to establish and maintain ESG management systems substantially similar to those described in Schedule 2;¹
- ✦ assist its direct investments to implement relevant requirements of the Climate Change Policy;
- ✦ actively 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 the Code;
- ✦ if it 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. If discussions with the Fund Manager, Financial Institution or Portfolio Company do not adequately resolve the issue, it will consider a variety of options including third party investigations, negotiated settlements, contractual remedies and its future relationship(s) with the breaching parties;
- ✦ report quarterly to senior management, its Board and its shareholder on E&S performance across the portfolio;
- ✦ publicly report on its implementation of the Code; and
- ✦ review and update the Code as necessary to reflect changes in CDC's mandate, applicable regulatory requirements² and evolving ESG practices or standards.

¹ 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.

² Including the Modern Slavery Act 2015.

Schedule 2

ESG Management Systems for Fund Managers and Certain Financial Institutions

Note: Schedule 2 applies to all Fund Managers. It also applies, but with respect to E&S issues only, to any Financial Institutions that use CDC capital for a portfolio that contains a substantial exposure to businesses or projects with potential for significant adverse social or environmental impacts. Such a Financial Institution will need to establish an E&S management system which will assess the compliance of its Portfolio Companies against the E&S requirements (but not the Business Integrity requirements) of Schedule 3.

Acceptable ESG management systems allow Fund Managers and Financial Institutions to assess and manage ESG issues across their pipelines and portfolio investments. The management systems should be commensurate with the scale and significance of these issues, and be dynamic tools that can reflect changes in the ESG issues that may be evident over time. Key elements that would normally be present in acceptable ESG management systems include:

- ✦ **Policy and Processes.** Developing and maintaining policies and processes demonstrating how the Fund Manager’s or Financial Institution’s own operations comply with the Requirements; demonstrating how ESG risks of all new investments are assessed, managed and monitored; assessing ongoing compliance of all investments with the Requirements and developing an Action Plan to address any areas of non-compliance; and establishing a public grievance process through which concerns over the ESG impact of investments can be addressed.
- ✦ **Roles and Responsibilities.** Assigning ESG responsibilities to ensure (i) effective oversight of the ESG management systems by senior management/governing bodies; and (ii) implementation by suitably qualified staff or consultants.
- ✦ **Performance Management and Monitoring.**
 - working with Portfolio Companies continually to improve their performance on E&S matters and, in addition, in the case of a Fund Manager’s management system, corporate governance and business integrity matters;
 - monitoring the performance and continued compliance of Portfolio Companies with this Code including progress against agreed Action Plans, 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 permanent damage to health, a material adverse environmental or social impact, or material breach of law relating to E&S matters and, in addition, in the case of a Fund Manager’s management system, business integrity matters, including financial irregularities; and, in all cases, the promotion of appropriate corrective actions; and
 - assisting Portfolio Companies in the integration of ESG management systems into their business to create the best opportunities for continued ESG management after any exit from the investment.
- ✦ **Reporting.** Ensuring regular (not less than annual) reporting of ESG performance and immediate reporting of any serious incidents, such as fatalities or breaches of law to governing bodies and investors.

Further guidance on ESG management systems is provided in CDC’s [“Toolkit on ESG for Fund Managers”](#)

Schedule 3

General Requirements

Every Portfolio Company, Fund Manager and Financial Institution will:

A. Environmental & Social Requirements

E&S Management System

- ✦ implement a management system, commensurate with the scale and significance of the E&S issues, that ensures a systematic approach to E&S risk assessment (including climate risks) and management. The management system should define policies and procedures which will apply to the business, and organisational arrangements to ensure effective implementation, as well as monitoring and reporting;

Working Conditions and Labour Rights

- ✦ not employ or make use of forced labour;
- ✦ not employ or make use of child labour;
- ✦ pay wages which meet or exceed industry or legal national minima;
- ✦ 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 status;
- ✦ 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 workplace;
- ✦ provide reasonable working conditions including a safe and healthy work environment, working hours that are not excessive and clearly documented terms of employment; 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 stakeholders;

B. Business Integrity Requirements

BI Management System

- ✦ adopt and implement policies and procedures to prevent extortion, bribery, fraud, corruption and financial crime in accordance with local law requirements and relevant internationally recognised practices;

Financial Management

- ✦ properly record, report and review financial and tax information as required by relevant accounting standards;

Sanctions

- ✦ operate in compliance with sanctions imposed by Her Majesty's Treasury as well as applicable international sanctions, including those of the United Nations;

Whistleblowing

- ✦ 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.

Schedule 4

Additional E&S Requirements for Specific Circumstances

If, in the judgement of CDC, the activities of a Portfolio Company at the time of CDC's investment involve or could be reasonably expected to involve:

- ✦ significant risks to the health and safety of workers;
- ✦ significant air emissions (including of greenhouse gases), use of water or generation of liquid effluents, generation of hazardous or other solid wastes; or resource use inefficiencies;
- ✦ adverse community health and safety impacts (including risks to health, welfare and economic opportunity);
- ✦ the acquisition and/or use of land that could affect the livelihoods and well-being of local communities (including as a result of increased food insecurity, or loss of access to natural resources (especially water) or traditional rights and practices) and/or results in economic displacement or involuntary resettlement;
- ✦ activities in conflict and post-conflict areas where the company's presence and / or activities could exacerbate an already sensitive local circumstances which might lead to further or renewed conflict;
- ✦ negative impacts on biodiversity, habitats or ecosystem services;
- ✦ impacts on indigenous peoples (or other marginalised and vulnerable groups);
- ✦ restricted opportunities for women and girls or otherwise increased gender inequality;
- ✦ impacts on cultural heritage;
- ✦ business activities in fragile or conflict affected areas;
- ✦ significant cumulative impacts or impacts that would be represented via supply chains; or
- ✦ other significant negative environmental or social impacts,

then (i) the requirements of relevant IFC PSs and EHS Guidelines should be met; (ii) an appropriate stakeholder engagement plan should be developed (including, as appropriate, the application of Free Prior Informed Consent as part of the investment process) and (iii) an effective and appropriate E&S assessment should be undertaken (depending on circumstances, this may include an E&S impact assessment, audit or other process) and/or issue-specific action plan (e.g. a resettlement action plan) should be developed for such activities.

Additionally, if, in the judgement of CDC, the activities of a Portfolio Company at the time of CDC's investment could reasonably be expected to involve:

- + *microfinance activities*, endorse and apply the [SMART Campaign Client Protection Principles](#);
- + *coal-fired thermal power*, ensure the Portfolio Company complies with [CDC's Coal Policy](#);
- + *significant emissions of greenhouse gases*, ensure that the Portfolio Company complies with [CDC's Climate Change Policy](#); and
- + *human rights risks which are not addressed elsewhere in Schedules 3 or 4*, ensure that the Portfolio Company assesses and manages such risks in accordance with the UN Guiding Principles on Business and Human Rights.

Schedule 5

Recommended Practices Promoted by CDC

There is strong evidence that businesses that actively manage ESG matters can generate financial or other commercial benefits. CDC therefore encourages all Portfolio Companies to consider the potential for positive environmental, social and governance impacts from their activities. Depending on circumstances, businesses are therefore encouraged to adopt, develop, offer or market:

- ✦ products, services, skills or employment opportunities that could benefit community stakeholders;
- ✦ a working environment and terms of employment that reflect decent work;
- ✦ employment practices that promote gender equality and women's economic empowerment; and
- ✦ resource efficient, greenhouse gas reducing or low carbon technologies or working practices.

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

- ✦ OECD Guidelines for Multinational Enterprises: recommendations for responsible business conduct in a global context;
- ✦ UN Sustainable Development Goals;
- ✦ 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 management;
- ✦ voluntary standards on the acquisition of land including Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forestry in the Context of National Food Security;
- ✦ internationally recognised standards on animal welfare, including EU animal welfare standards where possible or other Good International Industry Practice as appropriate to the local context, such as following the IFC Good Practice Note on Improving Animal Welfare in Livestock operations or the World Organisation for Animal Health General principles for the welfare of animals in livestock production systems.
- ✦ 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 Organization; and
- ✦ international standards of good corporate governance.

Schedule 6

Excluded Activities

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 wastes;
 - ozone depleting substances;
 - endangered or protected wildlife or wildlife products; 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 materials³; or
- +** Prostitution.

Any businesses, if any of the following activities represents a substantial portion of such business⁴:

- +** gambling, gaming casinos and equivalent enterprises;
- +** tobacco or tobacco related products⁵; or
- +** pornography.

³ 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.

⁴ 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.

⁵ Except, in the case of tobacco production only, with an appropriate timeframe for phase out.

Glossary

Action Plan: A plan that seeks to achieve compliance with the requirements of this Code 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: Applicable local and national laws.

Climate Change Policy: [CDC's Climate Change Policy](#).

Decent work: Opportunities for work that are productive and deliver a fair income, security in the workplace, good prospects for personal development and [social integration](#), freedom for people to express their concerns, organize and participate in the decisions that affect their lives and [equality of opportunity](#) and treatment for all women and men.

EHS Guidelines: [World Bank Group Environmental Health and Safety Guidelines](#).

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

Financial Institution: A commercial or mortgage bank, an insurance company, financial leasing company or similar institution in which CDC invests directly.

Free Prior Informed Consent: Agreement, reached with affected communities of indigenous peoples established through good faith, which documents: (i) the mutually accepted process between the client and the affected communities of indigenous peoples, and (ii) evidence of agreement between the parties as the outcome of the negotiations. FPIC does not necessarily require unanimity and may be achieved even when individuals or groups within the community explicitly disagree.

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

IFC PS: [IFC Performance Standards](#).

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

Requirements: As to any business, the requirement to comply with Applicable Laws, 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.



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