AVCA Member Profile
CDC Group


Founded in 1948 and owned by the UK Government, CDC Group (CDC) is the UK's Development Finance Institution (DFI) and one of the most experienced DFIs in the world. CDC provides patient capital to businesses and entrepreneurs in Africa and South Asia, primarily to facilitate job creation and sustainable development.

AVCA speaks to two senior members of the Intermediated Equity team, Clarisa De Franco, Head of Africa Funds, and Jeremy Cleaver, Portfolio Director, about CDC's investment strategy over the years and the importance of social development to Africa's growth.

Q: You are one of the oldest development finance institutions (DFIs) in the world. Tell us more about the evolution of CDC Group.

A: CDC was established in 1948 as a way for the UK government to provide developmental capital, primarily through debt. Initially, CDC's focus was on infrastructure and agriculture, and in Africa, we concentrated our efforts on food security and job creation in Kenya, Tanzania, Zambia and elsewhere.

Over the years, CDC's focus changed and the 1990s and early 2000s saw CDC providing capital to the nascent private equity markets of Africa and Asia. As the demand for equity capital grew in developing countries, CDC underwent a major reorganisation in 2004 to meet that need. This led to the creation of Aureos and Actis as independent fund managers, and to CDC operating solely as a fund-of-funds investor.

CDC continues to evolve to meet the changing demands of businesses in our geographies – we now only invest in Africa and South Asia. Since 2012, under new leadership and a new strategy, we've expanded our funds business, backing more managers than ever before, as well as starting to invest directly, backing businesses with both direct debt and direct equity.

Q: What differentiates CDC from other development finance institutions?

A: CDC is one of many DFIs – with different strengths, sizes and priorities – making a significant difference to the economies of developing countries. Our aim is to be complementary to our partner DFIs to ensure that, between us, we provide the private sector with the right blend of financial support. CDC's recent history means we have a greater focus on providing equity than our counterparts.

We are widely recognised as being the bilateral DFI that has supported the private equity industry in Africa, from its very beginnings to the present day. This commitment is demonstrated by our 14-member investment professional team dedicated solely to intermediated or fund investments in Africa. CDC also has the largest funds portfolio, with about 70 African funds. We can reach a larger number of businesses with a relatively small team, which allows us to mobilise more capital.

A key focus for us is also human capital, and creating a multiplier effect across the continent. If you think about the way our funds work, we essentially provide capital to a team that we feel has strong investment skills. At the top level, we are developing that private equity team, and that team goes on to invest in multiple businesses which we would not be able to reach directly, while also developing talent within those businesses.

Q: CDC has dual objectives of generating strong financial returns whilst creating lasting development impact. Can you tell us more about this investment approach?

A: We have been investing in developing economies for nearly 70 years. Two dual objectives have remained constant throughout this period – the need for reasonable financial returns while achieving lasting development impact.

When we talk about developmental impact, we focus on investing in countries with limited capital flow and creating as many jobs as possible. Since 2012, we have looked at the world through that lens: **how can we get capital to those countries that have not historically had strong capital flow, and where can we create the most jobs?** We invest in sectors where growth leads to jobs – both directly and through funds. We do this because job creation is essential in both Africa and South Asia, where two thirds of those of working age are without formal jobs.

We don't interpret these two objectives as a trade-off, where high development impact negates the need for financial returns or vice versa. In every investment decision we take, we assess whether potential impact is sufficient, and whether the potential return is adequate for the risk our capital is taking. Both criteria must be met for an investment to proceed.

Q: Tell us about a fund CDC has invested in that illustrates how the firm meets its objectives.

A: One of our fund managers is Catalyst Principal Partners, based in Nairobi and investing across East Africa. The managing partner of that fund used to work at Actis and previously CDC. He branched out almost ten years ago, to set up his own team, raising a relatively small fund to focus on the SME sector. We supported that fundraise in the middle of the global financial downturn by being an anchor LP, and they have done a fantastic job of investing in East African businesses so far. They have a diverse portfolio across the region of leading businesses in their respective segments, and have begun to show strong exit potential.

From a development impact perspective, their focus on growing SME businesses in the FMCG space has resulted in significant job creation not only in the investees, but also in the supply chain. They have been able to source global expertise to raise industry standards in their portfolio companies. In the example of recently exited Goodlife Pharmacy, Catalyst's management team introduced in-store surgeries for minor ailments at a lower price point than an average GP appointment.

About a year ago, they started thinking about fundraising for their next fund, and CDC provided them with some guidance on that, proceeding to anchor the fundraise. They recently reached a first close on their second fund, with over US$100mn in commitments.

Q: In your view, what is the role of SMEs in the context of CDC's broader impact goals?

A: Investing in SMEs is important because it means you are supporting the missing middle and enabling companies to grow and become larger businesses. However, much of the evidence shows that backing larger businesses tends to create more jobs per dollar invested.

The important thing for us is identifying the fund managers that have the skills to work with the SMEs to ensure that they have the right systems and processes in place. Some of the issues we find in the SME space include a lack of management reporting and corporate governance.

So, for us, backing a fund manager who understands the importance of these elements – good corporate governance and working with the entrepreneur to add value – is crucial. Of course, the challenges will vary according to the individual business, but the fundamentals are the same across the industry.

Q: Given CDC's longevity in the African private equity industry, what are the key developments you have witnessed over the years?

A: There has been a real evolution in African private equity over the last 10 – 15 years, probably beginning around 2004 when CDC became purely a fund-of-funds. That was a nascent period in the industry as there weren't many funds in the market. Over time, the number of funds across the entire continent has increased rapidly.

From a macroeconomic perspective, Africa has gone from being the 'hopeless' continent to a hopeful one, and the narrative seems to be reversing. What this has done is create an interesting dynamic in the market, because as economic growth improved, the interest in the African PE industry increased correspondingly.

We started to see the entry of international institutions into the market – from Asia, Europe, and the United States – looking at either funds or direct investment opportunities. During this time, we have also seen the development of local pools of capital, particularly local pension funds in countries such as Côte d'Ivoire, Ghana, Kenya, Nigeria, and South Africa, as well as Botswana, Rwanda, and Uganda.

There has since been a downturn in the commodity cycle across Africa, and economic growth has become less uniform.

For example, Nigerian economic growth has dropped substantially, while Ethiopia and Kenya have largely maintained their growth rates. Where South Africa's economic growth has stalled, we have seen tremendous growth in Côte d'Ivoire and Uganda. This means that we have moved from a generally positive situation, to a mixed environment that has led to very negative headlines around some countries.

Consequently, those international investors have not had a real opportunity to see strong returns from their investments, and many of them have pulled back. At the same time, the industry has not seen the kind of investment flow expected from local institutional investors. This is because their investments have largely been focused on listed and domestic equities, which has had implications for the inflow of capital from local and international investors into private equity funds.

Q: What role should DFIs play in addressing the limited flow of local capital?

A: There is a need for DFIs to keep supporting the development of the African private equity industry. Indeed, this issue of limited local capital flow puts pressure on DFIs to seek innovative ways to work with the local LPs because they also have a crucial role to play in developing the industry. We have been doing some work with the Nigerian pension funds and other local LPs in South Africa to help them overcome some of the challenges they might face in backing African PE funds.

Some local pension funds have invested in several PE funds, although one key difficulty with local pools of capital is the restriction on how much they can invest outside their countries. This means that unless a fund manager has a single-country focused fund, it could be difficult to structure investments. For example, some pension funds have capital allocation constraints of up to 75%, so when they look at making a private equity investment, most of that capital has to stay in-country, making regional or pan-African funds less attractive. Part of the problem is a lack of awareness of smaller fund managers, and this is where AVCA's mission becomes important. AVCA plays a key role in highlighting who the players in the industry are, and how they are each contributing to the PE ecosystem. By doing so, one gets to see who is out there, what their role is, and what their investment strategies are. By connecting players in the industry, we are collectively able to further develop the industry to grow economies. We hope that local LPs will be more open to non-domestic markets and regulators will start to allow greater investment outside their countries.

Q: What's next for CDC Group, and what are your expectations for the future of the industry?

A: We are at an exciting point in CDC's history. We will be publishing our 2017 – 2021 strategy this year, which will be in line with what we have been talking about: going into more difficult markets and developing more innovative and impactful ways to support the growth of African businesses.

Regarding the outlook for the industry, the overall trajectory for Africa is positive. The unique macroeconomic issues facing countries like Mozambique, Nigeria, and South Africa will soon pass, and we expect the growth rate of the continent to return to where it used to be. In terms of demographic trends, we are hopeful because we understand that jobs need to be created to absorb the growth in population. This means that there is scope to back more PE funds because the only way to drive economic growth through demographic change is to create the jobs in the economies. We have seen this happen in Asia, so it is a key driver for us to continue creating as many jobs as possible.

It is important for us to do a better job of highlighting the stories of fund managers that can identify the best businesses and add value in unique ways. People should be able to identify those managers and develop a much better understanding of the African investment environment. If you are only reading about Africa or attending one conference, you are not going to have that comprehensive knowledge. We invest in nearly 80 African funds, all of which have diverse performance rates. It is important for us to educate the industry on those various funds, and particularly encourage other people to invest in them because they have the right developmental impact and returns.

Overall, we find that the best private equity investors will always find a way to make money despite the macroeconomic environment. We will continue to support extraordinary fund managers and the wider industry. We also look forward to the time when things will start to improve again. In the meantime, we are working very hard to identify the best ways to invest in African PE now, and how to support our existing fund managers and the new players coming into the market.