Initial thoughts and Perspectives from Mark Eckstein  CDC Group  London

IFC Practice Group Meeting on Codes, Standards, Transparency and Disclosure: A Governance Framework for Sustainability in Emerging Markets

My comments are based on my role as Environmental and Social (ES) Director at CDC. Thus more focused on ES rather than G (or business integrity - BI) aspects which are covered off by others at CDC. Importantly however we are seeing increased demand and interest (especially from our fund managers) for guidance and advice on integrating and managing the Governance of ES practices (ie roles of Board, ESG sub committees, oversight and reporting in supporting and enabling better ES performance) and we are therefore focussing some of our efforts on building capacity for fund managers and portfolio companies so that there is strong and clear oversight and management of ES aspects of a company’s operations, and also clarity on roles and responsibilities. For example, we recently developed a half day ES and BI Governance Masterclass for fund managers (delivered in London in May, Lagos this week and Mumbai in Q4).

CDCs Approach to ES Diligence and Management

Like all DFIs, CDC invests a lot of time an energy understanding ES practices prior to investment. Understanding the motivations and needs of investees is critical and we like to think we are pretty good at effective and thoughtful ES Due Diligence (ESDD) which is informed by our experiences as an LP and through direct investments. Without a shared commitment to address ES risks (and increasingly opportunities) it is very hard to ensure progress towards better ES performance let alone compliance and value add. We look specifically at commitment and capacity (and in our role as a DFI, look to work with investees who have commitment but lack capacity).

Post investment, the real work starts and we understand that this is where the heavy lifting often begins (across the portfolio, at least 50% of our time on direct equity and via our role as an LP is focussed on supporting investees/ fund managers post investment). Increasingly this involves working with and building the capacity of the company to think strategically about ES risk and opportunity (ie engaging with senior management / Board). Needs to be done in a thoughtful way and integrated into broader change agenda (100 day plan etc) so as not to overwhelm and confuse company. We expect to play the long game.

Adding Value to Transcations

As a DFI our mandate is to work with investees across a range of business drivers and strategic growth ambitions (including ES and BI). We look specifically at current ES performance, as well as capacity and commitment. Understanding a company’s challenges (business fundamentals, regulatory, sector and trends…) and how ES performance will hinder or enable the growth that the company is looking to achieve.

It’s rare now to find denial that ES and BI are important factors for a company to manage, but capacity constraint (particularly senior management / board) are often evident which hinders implementation. We have found ESG committees to be useful across our direct equity portfolio. They can provide a platform for focus and collation of a broad range of issues (e.g labour and health /safety, supply chains, stakeholders, climate). This is important as it provides time for Board members and senior management to reflect on ambition/ strategy and progress. This is often important because outside of a “ESG” committee no one in the company is looking at the whole picture (holistically).

ESG committees can also play an active role in regular monitoring of performance (and providing summary / recommendation to Board) as well as reviewing of the ES and BI risk
management system and internal controls to assess if they are being applied and maintained properly.

Below the senior management and Board level, it is critical to have the right in house capacity (tough to find in some markets, and maybe even tougher to retain once trained).

**Trends**

**Reporting:** CDC develops a bespoke annual monitoring report format for each direct deal (we collaborate with other DFIs as appropriate to ensure a single AMR if possible) but I do see this as an area needing work. Most reporting is check box and doesn’t reflect a wholly true or complete picture of a company’s performance (let alone impact). We see growing interest (from GPs and direct equity investees) to look at SDGs as a reporting framework. This is interesting and has potential (but need to beware of the self-serving and partial nature of reporting)

**Collaboration and Alignment:** DFIs and increasingly other investors are collaborating and aligning interests – needs to be handled carefully to ensure consistent and clear messages. Understanding trends / emerging issues and pressure points (climate, labour, technology/ social media, societal expectations and spread of supply chain regulations and pressures (UK Modern Slavery Act, Consumer Goods Forum etc)). As investors, bringing these kind of perspectives to investees (who may have been domestically focussed and unsighted on these trends) is a very important role.

**Challenges**

**Consultant capacity:** Too expensive for many emerging market companies (esp international consultant), and often poor quality

**The curse of CSR:** “But we have a program to provide health care to local communities via our foundation” Not good enough in the 21st Century (ineffective risk management let alone value creation)

**Trying to do too much too quickly:** Change takes time and ES / BI change will generally take more time than other change agendas Patience is a virtue/ Plan for the long game