PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

COMMONWEALTH DEVELOPMENT CORPORATION BILL

First Sitting

Tuesday 6 December 2016

(Morning)

CONTENTS

PBC (Bill 093) 2016 - 2017

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not later than

Saturday 10 December 2016

The Committee consisted of the following Members:

Chairs: Joan Ryan, †Mr Gary Streeter

Boswell, Philip *(Coatbridge, Chryston and Bellshill)* (SNP)
† Bruce, Fiona *(Congleton)* (Con)
† Doughty, Stephen *(Cardiff South and Penarth)* (Lab/Co-op)
† Duddridge, James *(Rochford and Southend East)* (Con)
† Elmore, Chris *(Ogmore)* (Lab/Co-op)
† Fuller, Richard *(Bedford)* (Con)
† Grady, Patrick *(Glasgow North)* (SNP)
† Graham, Richard *(Gloucester)* (Con)
† Griffiths, Andrew *(Lord Commissioner of Her Majesty's Treasury)*
† Hussain, Imran *(Bradford East)* (Lab)
† Lefroy, Jeremy *(Stafford)* (Con)
† McGovern, Alison *(Wirral South)* (Lab)
† Osamor, Kate *(Edmonton)* (Lab/Co-op)
† Scully, Paul *(Sutton and Cheam)* (Con)
† Stewart, Rory *(Minister of State, Department for International Development)*
† Tolhurst, Kelly *(Rochester and Strood)* (Con)

Colin Lee, Glenn McKee, *Committee Clerks*

† attended the Committee

Witnesses

Rory Stewart MP OBE, Minister of State, Department for International Development

David Kennedy, Director General for Economic Development, Department for International Development

Diana Noble, Chief Executive Officer, CDC Group

Graham Wrigley, Chairman, CDC Group

Tom McDonald, Director Department for International Development Value for Money, National Audit Office

Terry Caulfield, Value for Money Manager, National Audit Office

Gideon Rabinowitz, Development Finance, Oxfam GB

Sir Paul Collier CBE, Professor of Economics, Blavatnik School of Government, University of Oxford

Saranel Benjamin, International Programmes Director, War on Want

Public Bill Committee

Tuesday 6 December 2016

(Morning)

[MR GARY STREETER *in the Chair*]

Commonwealth Development Corporation Bill

9.25 am

The Chair: This is quite an unusual procedure for those who are not used to it. We are now sitting in public and our proceedings are being broadcast. Before we begin, I have a number of preliminary announcements. Please make sure that mobile phones are switched off or to silent. Tea and coffee are not allowed; please help yourself to water. We will first consider the programme motion. In accordance with my normal practice, we will start with the shadow Secretary of State, and then we will listen to whoever indicates that they wish to speak. We do not need to allocate questions. Is everybody happy with that? Yes? Excellent. We will then consider a motion to enable the reporting of written evidence for publication. In view of the time available, I hope that we can take these matters formally without debate.

Resolved,

That—

(1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 6 December) meet—

(a) at 2.00 pm on Tuesday 6 December;

(b) at 11.30 am on Thursday 8 December;

(2) the Committee shall hear oral evidence in accordance with the following Table:

Date	*Time*	*Witness*
Tuesday 6 December	Until no later than 10.30 am	Department for International Development; CDC Group plc
Tuesday 6 December	Until no later than 11.25 am	National Audit Office; War on Want; Oxfam; Sir Paul Collier, Blavatnik School of Government, University of Oxford

(3) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 1.00 pm on Thursday 8 December.—(Rory Stewart.)

The Chair: I can announce that the deadline for amendments to be considered for line by line Committee sittings has passed. I hope everyone got them in on time.

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(*Rory Stewart*.)

Examination of witnesses

Diana Noble, Graham Wrigley, Rory Stewart and David Kennedy gave evidence.

9.28 am

The Chair: Do any members of the Committee wish to make declarations of interest? No? Good. We will now hear oral evidence from the Minister and from the chair and chief executive of the CDC. Before calling the first member to ask a question, I would like to remind all members that questions should be limited to matters within the scope of the Bill, and we must stick to the timings in the programme motion agreed by the Committee. We have until 10.30 am for this session. Could the witnesses introduce themselves for the record?

Diana Noble: I am Diana Noble and I am the Chief Executive of CDC.

Graham Wrigley: I am Graham Wrigley and I am the chairman of CDC.

Rory Stewart: I am Rory Stewart and I am the Minister of State, Department for International Development.

David Kennedy: I am David Kennedy and I am the director general for economic development at DFID.

Kate Osamor (Edmonton) (Lab/Co-op): Good morning. CDC's operational policy published in March 2014 on the payment of taxes and the use of offshore financial centres dictates that CDC would invest through a jurisdiction that is not successfully participating in the Global Forum only in exceptional cases. What would be the exceptional cases in which it would use these jurisdictions?

Diana Noble: Let me first say that CDC's use of OFCs has nothing to do with secrecy or reducing tax. We take pride in the payment of corporation tax by our portfolio companies in the countries where we invest—it is one of our development indicators. We use OFCs for two important reasons. One is for legal certainty; the other is to pool capital in neutral places. Let me explain both of those. CDC's mission is to invest and grow businesses in some of the poorest companies in the world. Unfortunately, many of those places do not have legal systems that allow us to invest with certainty that, if there is a dispute, we will be able to get our money back. Of course, one of our big areas of responsibility is to look after UK taxpayers' money: that is part of our mandate. So unfortunately, for some places where we invest we have to go through an offshore structure.

The second point is that we have a very important mission to pool capital from other investors to come in alongside us into difficult countries. This is an enormously important role. If we look at CDC's investments from 2004 until now, we have supported fund of funds that total $30 billion in Africa and south Asia, of which CDC has only provided $5 billion—so that is $25 billion from other investors. Those investors come from lots of different jurisdictions themselves, so the capital does have to be pooled somewhere. Those investors, who are already cautious about the countries in which the investments are being made, have a lower risk tolerance than CDC does, for legal certainty; so they insist on a safe jurisdiction. We, however, do play our role, because we insist that that pooling is done in the best, or the most compliant, of the offshore centres in the OECD register.

Do we think that the situation is ideal? We don't. We look forward to the day when every country where we invest has a safe legal regulatory system, where we can invest directly in every single country; but that is not the case today. What we have done, though, is encourage an important project that we have been working with DFID on, to examine the possibility of an onshore centre in Africa. That work has led to the Governments of Kenya and Rwanda taking this very seriously. It would be a very long-term project, but we are very keen that it gets progressed over time.

Q1 Kate Osamor: How many offshore jurisdictions do you currently use?

Diana Noble: It is a short list. We can provide absolute clarity about exactly how many, subsequent to this Committee. On the list are certainly Mauritius, which is well accepted as a place for pooling capital, particularly for Africa and south Asia; Guernsey; and Cayman Islands.

Rory Stewart: I have the list: at the moment, it is Cayman Islands, Guernsey, Jersey, Luxembourg and Mauritius.

The Chair: Kate Osamor—are you happy?

Kate Osamor: Yes.

Q2 Richard Fuller (Bedford) (Con): I apologise, Mr Streeter, for being slightly late. Graham, can I ask you a little about the potential for the CDC to attract investment from other investors? Diana was just talking about the fund of funds drawing funds in, but at the top level of the CDC are there opportunities to get sovereign wealth or other enlightened investors, perhaps high net worth individuals, to put their money alongside the increasing capital of the CDC?

Graham Wrigley: That is an interesting question. The other day someone asked us whether it would be possible to turn the CDC into an ISA or a PEP. Looking at how other DFIs are funded, the IFC has created a vehicle whereby people have invested alongside the IFC; the FMO is owned partly by some banks as well as—

Q3 The Chair: Do you want to explain some of those acronyms for the record?

Graham Wrigley: Yes. I am sorry. The IFC, which is the International Finance Corporation and is part of the World Bank, has created a programme called the AMC, which has mobilised other capital. The FMO is the Dutch equivalent of the CDC and it is partly owned by some banks. The CDC's business model, though, is one whereby we are 100% owned by the UK Government, and that is how we see ourselves. We see ourselves as we are, as the world's oldest development finance institution.

We have mobilised other capital mostly through the fund structures, and we are now looking at permanent capital vehicles whereby we will get investors who are interested at the project level. It has not been on our agenda for the past five years to look at raising capital at the CDC level because, as I said, we see ourselves as 100% owned—

Q4 Richard Fuller: Are you open to putting that on your agenda? If the British taxpayer is being asked to put more money in—Diana was talking about how well we are leveraging in at the project level—surely we should have a strategy. Loads of people, not only in the UK but around the world, may be willing to put their money alongside the expertise of the CDC, so will you look at that?

Rory Stewart: May I come in on that? Technically that would be a call for the Department for International Development rather than for the CDC, and it would be set out in the five-year forward business strategy produced at the end of this year. It is certainly something we can consider. Among the things that we would have to consider is the fact that we are driving the CDC very hard to make high-risk investments in some of the most difficult countries in the world. We have dropped our expectation of the level of financial return because our primary objective is development, so the type of investor who would co-invest with the CDC would have to be a specialised one, engaged, essentially, in some form of philanthropic investing. But we can certainly look at that.

Q5 Richard Fuller: I am intrigued by Mr Wrigley's suggestion about an ISA or a PEP, which are much more about individual investors. Every day on the television we see requests for people to put money—£2 a week, £3 a week—into those sorts of things. There is a tremendous interest in this country in development work, and pride in the public support for it. Would you be interested, Minister, in taking up the indication from Mr Wrigley about an ISA/PEP model to galvanise individuals in this country to put some of their money alongside the CDC?

Graham Wrigley: May I be clear that that was not my suggestion? The CDC, as the Minister said, provides incredibly high-risk, development-driven, impact investment in the hardest countries in the world, and it is the last place I would recommend anyone put their pension—

Richard Fuller: Thank you for the clarification, Graham. I did not mean to misinterpret you. It was something you said. But, on the principle, Minister?

Rory Stewart: Perhaps, Mr Fuller, we can sit down and explore your idea in more detail. It is an interesting idea.

The Chair: Thank you. We will move on. Alison McGovern.

Q6 Alison McGovern (Wirral South) (Lab): I have two questions. The first is for the CDC—I do not mind if you answer, Diana, or if Graham does—and the second is for the Minister.

The first question is on crowding in versus crowding out. What is your measure for additionality? Can you tell me numerically what the test is? How do you know for sure that you are not doing what the private sector would do anyway, and how numerically do you know that projects and funds are meeting that test?

[Alison McGovern]

Secondly, the Bill proposes an incredible level of freedom on investing in the CDC. Why is the cap so high? Why are we expressing such a high level of confidence in CDC, as opposed to any other aid mechanism?

Diana Noble: I am happy to take the first question. It is a very important question that has been extremely high on the agenda of the board and the management team over the past five years.

We felt back in 2012 that this had not been taken seriously enough by the CDC pre-2012. We engaged an extremely experienced person—ex IFC—to look at the whole area of additionality for us. He wrote a long report and went to talk to all the other DFIs as well. Our guidance to him was, "We want CDC to have the highest standards of additionality across all the DFIs." This is a difficult area. He has written a long report and I would be very happy to share it with Committee members.

The report led to some broad principles that say that CDC completely understands that we must play a unique role in every investment that we make. This is not generic across a portfolio; this is a standard that the investment committee applies for each investment that we make. We must be satisfied that our unique role is either that we are bringing capital that another investor will not bring or that we are bringing some unique expertise that is important and will lead to a material improvement that another investor will not bring. We take that incredibly seriously.

The team of CDC has no interest in doing what the private sector will already do. We take real pride in being distinctive and bringing something special to our investing companies.

Q7 Alison McGovern: May I briefly follow up on that? You say that either there is not another investor, which is clear, or that we need to bring some unique experience. What does that really mean? That seems to me like a catch-all.

Rory Stewart: The primary measure that has been set by the Department is the development impact grid, which defines what the most difficult countries are in which to invest. It looks at three criteria—GDP per capita, the amount of capital available and the difficulty of doing business. The last two help us from a strategic level to answer your question. I will hand back to Diana.

Diana Noble: You are right. It is at the point of investment that we say we are bringing expertise to a company. That is a forward look. It would typically be environmental and social issues. For example, we worked with an online retailer in India to transform how they thought about their supply chain and to sign them up to the ethical trading initiative, which was the first time that any online retailer in India had done that.

Of course, we are saying that at the point of the investment. We do not know whether it is going to happen. What we have done—again, we are the first DFI to do this—is implement an external objective review of every case, in which we only justify it on this additional expertise, not on capital. We had our first report back that said that in all of those cases—they are a minority—we did in fact actually deliver and in a lot of cases we delivered more than we expected at the time of the investment committee. I agree with you that none of us should be justifying an investment on an expectation that does not happen.

Rory Stewart: The answer to the second question is that over a five-year period we are looking at a ceiling option on the basis of a business case of CDC being able to draw down up to £4.5 billion. That is a very large sum of taxpayers' money and we need to be very responsible about it. It is also worth putting that in context. The overall annual expenditure is estimated at £12 billion. To put that £1 billion in context, in a single year we would typically put something in the region of £5 billion into multilateral institutions. To illustrate that what we are putting into CDC is not out of proportion to other comparable investments, the type of funding we produced for the World Bank over the last three-year period was £3.3 billion. We are about to do another replenishment, but it is of that order.

Why are we putting it into CDC? Well, there are a couple of reasons. One is that we believe CDC is a very effective vehicle for delivering jobs and economic development in some of the hardest places in the world. The second thing, contextually, is that there is a difficult issue, to which we can return, of comparing a stock with a flow—in other words, comparing what will be a capital fund for CDC with the annual expenditure of the Department—but even at 8% we are likely to be significantly lower than the amount of money that Germany or France, for example, put into their equivalents.

The Chair: A quick follow-up.

Q8 Alison McGovern: Minister, you mentioned the index that is designed to drive investment to the poorest parts of the world, yet we have heard about investment in online retail in India. My understanding was that the Government's policy is to move investment away from middle income countries, or countries towards the middle income range, such as India. How can the two approaches fit together? It makes no sense.

Rory Stewart: In the grid, we break India down by state and target the poorest states. There is a transition in India. You are absolutely right that the Government have decided to move away from traditional development grants and into technical assistance and the kind of financing that CDC would produce. We do two things in an Indian context: we target the poorest states and, specifically on the question of the online retailer, we are able to do things in India that we might not be able to do in some of the more testing, difficult markets. With that particular online retailer we are also able to focus on driving up labour standards and making sure that skills and worker safety are protected. It is worth bearing it in mind that India, despite all its very strong economic performance, still has some of the very poorest areas in the world. Enormous numbers of people are on less than $2 a day, and many are on less than $1 a day.

Q9 Patrick Grady (Glasgow North) (SNP): I would like to probe a little more on the specifics of the hard figures in the Bill—the £6 billion and the ultimate cap of £12 billion. Where do those numbers come from? What was the needs assessment that these are about the amounts of money that the Department feels CDC needs? Was there dialogue between the Department and CDC to reach those amounts? Why go for such hard figures, rather than some kind of proportional formula? Is there any indication of a timescale in which these amounts might eventually be reached?

Rory Stewart: It is a question of setting a ceiling. We welcome this, but it is quite unusual in the Department's spending to have to go through primary legislation in order to make a financial allocation. I mentioned to Ms McGovern that, in a three-year period, we would allocate, say, £3.3 billion to the World Bank. We do not do that through primary legislation. This Bill attempts to give the Department the ability to do what we do with the rest of our budget, which is to make decisions on the basis of ministerial decisions, accountability to Parliament and strategic decision making. Specifically in relation to CDC, we would like the ability, should a business case emerge, to give it more money without having to come back to Parliament with primary legislation every time we wished to do so.

Where was the figure arrived at? Well, the figure was arrived at after a discussion with CDC about the maximum possible amount it could realistically require over the period, which takes into account its staff resources, the demand in the developing world and its past spend. If you look at CDC's last round, it put about £1.2 billion through in a year, of which £735 million was a recapitalisation from the Government.

Looking forward over the next five years—2016 to 2021—this would allow them to draw down something of the order of £1 billion a year. In effect, it is only £4.5 billion because of that £6 billion they already have £1.5 billion. On the next bit of what they take in the future, if I'm honest with the Committee, my preference would have been to say, for the reasons and principles I laid out in relation to our other spend—our investment to the World Bank—that Ministers could come back through secondary legislation. A statutory instrument is how I just did a £350 million addition to the World Bank. I think you were on that Committee, Mr Grady. That would be the process we would hope to do with CDC.

My preference would have been to just give Ministers the power to go to a Statutory Instrument Committee to ask for that money, but the Clerks of the House advised us that it would be better to set a financial limit to that power, so we chose for the period 2021 to 2026 the same amount we chose for 2016 to 2021. That is how that figure is arrived at.

Q10 Imran Hussain (Bradford East) (Lab): Just to build on the point made by Mr Grady in his question to the Minister, I listened to the answer, but in the absence of a business case strategy or investment policy I am finding it difficult to understand how we can arrive at those specific figures because there is nothing to suggest how that money will be spent.

Secondly, does CDC have the capacity, given the totality of its lifetime spend of £1.5 billion? Such a massive increase would be an issue. Another question, probably to the Minister, is around the point made earlier by Ms McGovern and the areas where we have availability of private sector financing. Is there any idea of where the new strategy or investment policy will go with that? I take on board the example used—India. I accept that India has pockets of poverty, but in comparison private sector financing is more readily available perhaps than for other target areas.

Rory Stewart: Those are three very good questions around the business case, capacity and private sector financing. I will take them one by one.

The idea of this proposal—the primary legislation—is to provide an indicative ceiling around which a business case can be organised. Within the Department, we would expect to produce a business case and to have some sense of what money would be available. Currently, there would be no money available so it would not be possible at the moment for anyone to write, as the Department would hope, the forward strategy for future investment or produce a business case, which we hope to do in the summer of next year because Parliament would not have given us permission to give any more money to CDC.

Bluntly, if the Committee decided not to pass this legislation, CDC would have to start reducing staff and we would have to scale down significantly the future programme of investments because there would simply be no money legally available to CDC and there would be no purpose in producing a business case in the summer for future investment because that money has already been allocated. So we believe it is important to get your permission in principle for a seemly amount that we could give CDC should a business case be produced to meet it. That brings me to the second question.

I will hand over to Graham and Diane in a second, but I am absolutely certain that the board of CDC and its chief executive will not request the money from us if they do not feel they have the capacity to spend it and if market demand does not exist for that expenditure. They are under a strong obligation to their board to make sure they take this money responsibly, so even in a case in which DFID does its business through consultation with CDC and we decided, for the sake of argument, that a reasonable sum of money going forward over a five-year period was, let us say, £3 billion—I chose £3 billion because the £4.5 billion is a ceiling and we are not saying we will take that. That is what this business case is about. So let's say it was £3 billion. They would then effectively be able to draw down on a promissory note, effectively. The Department would be saying, "You can draw down that money over a five-year period." CDC would then have to come up with individual proposals—"Here is a solar programme in Burundi that we think is worth investing in"—and draw down the money from us. I do not want to speak for CDC, but it would certainly not be drawing down money if it did not feel that it had the resources to spend it responsibly.

That brings me to the third question of private sector financing and to Ms McGovern's question. We are absolutely clear that we do not want to be in the business of crowding out private sector finance. One of the really good criticisms made of CDC in the National Audit Office report, the Public Accounts Committee report and the ICDC report was that it was doing exactly that, for example by making investments in coastal China. We stopped those things from 2012 onwards. The investments that we are now talking about in India are in places such as Bihar or the poorest bits of Uttar Pradesh, where the business environment is very difficult and very little capital is going in. We are also making sure that the grid is followed absolutely with every investment, so that we are not falling into that trap.

Graham Wrigley: This very important question is about how CDC and the shareholder respond to what we think is the very clear need for long-term, patient, impact-driven and additional capital in low-income countries, and about how we do that in a responsible and thoughtful way. We fully understand that this will be a very significant step in CDC's history, but from our perspective, having worked on this for the last five years, this is evolution, rather than revolution as it might look from the outside.

Let me explain why. If we go back to 2012, when an entirely new mandate was created, a new team was empowered to go off and explore and see what would happen. At that time, the projections showed that if things went well, more capital would be required. That is precisely what happened, and it led to the recapitalisation in 2015. As the Minister has just said, we structured that recapitalisation such that the money could be drawn down if and when there was the market demand. Indeed, it was only this week that the first promissory note for that recapitalisation was called.

Going into the next five years, the team has now been established. It was 40 people back in 2012; we are now at 220. The commitment rates have gone up. We believe that the market need in our markets is growing, and for the last year we have also been working with the Department on a series of potential new programmes focused on high risk and on unlocking new forms of development impact.

The quantum and timing of any capital given to CDC will depend on two things: first, the shareholder making its decision about how CDC stacks up against other opportunities—the opportunity cost was debated in Parliament last week; and secondly, the view from CDC. As chair of CDC, I feel deeply responsible for making sure that any capital that we call is allocated for the purpose of development impact, and that our teams can execute that responsibly. That is the context for where we are now and for the Bill. We see this as a long-term discussion about the shareholding of CDC. CDC has to perform it for the purpose of development impact, which I promise you is what drives everybody who works in CDC.

Rory Stewart: Just to confirm, Graham, am I right that you are formally saying to the Committee that you would not draw down this money if you did not feel that you could spend it responsibly and have the resources to do that?

Graham Wrigley: No, we would not do that.

The Chair: That well known Labour Member, James Duddridge.

Q11 James Duddridge (Rochford and Southend East) (Con): Thank you, Mr Streeter. I should have taken the opportunity to draw the Committee's attention to my entry in the Register of Members' Financial Interests; my apologies that I did not do so earlier.

I have two questions, Minister. First, going back to the cap, I wonder whether the Bill is future-proof. I think that we will pass the Bill—it will become an Act—there will be successful drawdown up to 2020 and 2025, and quite possibly at that point you will have to come back to the House to ask for more money. Can you go into a little more detail as to why the Clerks did not advise that? Recently, we have had the multilateral and bilateral review, and that does not get anywhere near the same scrutiny as this relatively, proportionately, smaller amount of money.

Rory Stewart: I think the argument from the Clerks is that Parliament does not like the idea of granting blank cheques, and I can completely understand why you would want to bring us back. Again, this was simply an attempt to get an in-principle agreement that in changing the way in which the CDC was funded, we would move to secondary legislation, but I can completely understand why you would want to put a cap on that, and we have accepted that; we are happy to take that.

Q12 James Duddridge: This is my second question. As I said, I think that the Bill will be passed, but if it is not and we accept as a Committee the need to put more money into economic development and jobs, what capacity would DFID have to spend the same volume of money? Is there an alternative? During Second Reading, there was a lot of talk about the opportunity cost of giving this money to the CDC. What else could DFID do with the money?

Rory Stewart: The key thing is that this is within our economic development portfolio, which is less than 20% of our spend, so it is about moving money from, essentially, David Kennedy's part of the Department—within different programmes in his part of the Department. The intention is not to move large sums of money from our humanitarian activity, health activity or education activity. It is a different modality for economic development.

What alternatives might we have were you as a Committee to decide not to approve this legislation? We could, for example, give more money, through the World Bank, to the IFC. We could use a different form of DFI, which was not the CDC, and the World Bank could theoretically spend that money. That would not require primary legislation; it would require my going to you with a statutory instrument in the normal way we give money. Alternatively, we could spend the money, as we have done in the past, on technical assistance. That is a normal part of economic development activity. There are also various forms of livelihood programming that we have done in parts of the world. However, we believe that the CDC is a really good institution; we think that it is in many ways better than the other development finance institutions that we could look at as alternatives if you did not wish to go with the CDC. That is why we strongly suggest that we put the money into the CDC.

James Duddridge: That makes an awful lot of sense.

Q13 Richard Graham (Gloucester) (Con): Over the years since the inception of the Commonwealth Development Corporation in 1948, the Government's approach to it has fluctuated considerably. In the 1980s it was doing, on a smaller scale, broadly what Graham and Diana are now doing—direct investment—but then there was pressure to separate out and effectively privatise the private equity or venture capital element of it. With 0.7% of GNI going to DFID, you can take a longer, more strategic approach to the CDC, but the effective tensions, potential tensions, between ODA objectives, taxpayer return on equity and pursuing aid goals but not investing in things that might be done by the private sector otherwise, remain and arguably will be more in the public eye as the CDC expands. How will you balance those, and what is the longer-term strategy, in your view, for the future of the CDC?

Rory Stewart: It is a very good question. You are absolutely right: since 1948, the CDC has been through changes. I think that is because it was a very bold and imaginative move by the Attlee Government. It was a very unusual thing at the time; indeed, it was the first DFI. And from the moment that they were invented, DFIs have had to tread a thin line between two quite different things: a private sector modality—a desire to generate a commercial return—and a public developmental objective. A lot of the shifts you mention are about the pendulum swinging back and forth between these two types of objective.

Looking at the history of CDC, there have been times, in the 1980s for example, when CDC made a lot of very bold, risky investments in high development impact and lost money. It did not succeed in making money. There have been other times, under other leaderships—and this was true in the period criticised by the NAO, in the 2000s—when they went to the other extreme. We had a situation in which, during that period, CDC managed to generate £1.5 billion of profit—profit for the UK taxpayer, profit that is put back into the CDC and reinvested, but they were very high rates of return, largely achieved through the fund of funds strategy.

Now, we are using this piece of primary legislation, this discussion of the Committee and also the UK aid strategy and the CDC strategy being undertaken at the end of this year, to provide a much tighter definition of the key characteristics that take us forward. That is, philosophically, that the DFIs work when you get that balance right. The balance is right where the private sector element gives you the commercial discipline to make sure the investments you are making are genuinely sustainable, that they are going to keep those jobs and deliver revenue to the Government and value for money for the taxpayer. However, that has to be balanced with the public objective, which is the ability to make very patient long-term investment, to take a certain degree of risk and to pursue developmental impact. That is why we have put out this grid where, on the X axis and Y axis, we measure with every single investment how much capital is available, how hard the business environment is, how low the GDP capture is on both axes and whether the sector is likely to create jobs. That is also why we brought in Harvard University last year to review this and why we are now going through a 15-year longitudinal study to try and establish this.

I think we are getting better at this, but your warning, Mr Graham, is a good one and everything we are doing in our strategy, our metrics and our measurement is to ensure that we are not back in a world where this pendulum is swinging back and forwards all the while.

The Chair: Just before Mr Graham comes in again, five other colleagues have caught my eye and we must finish this session at 10.30 am, so we are going to have to speed up a little bit.

Q14 Richard Graham: May I follow up very briefly on three specific points? First, if having private sector expertise in CDC helps it focus on the commercial return element, sustainable investments and so on, which I totally accept, would a partial flotation at some stage not both achieve Richard Fuller's earlier point—I think it was Richard Fuller who mentioned it—on bringing private money into the CDC, that is, the Government acting as a catalyst to bring money with it, on the one hand, while on the other, assure those people in the private sector that it was not the Government competing against them?

The Centre for Global Development called for the CDC to

"do as much as possible to demonstrate that it's investing in projects that create jobs and growth which would not otherwise happen."

Is that an impossible ask?

The last point is on the geographic eligibility. At the moment, you can invest in 63 countries, which is considerably more than the Commonwealth. What about Palestine or the middle east?

Rory Stewart: Okay, here we go.

The Chair: As briefly as you can, please.

Rory Stewart: Those were three very complicated questions, but I will try to deal with them very quickly. No. 1, the reason why a partial flotation would be difficult is that the returns we generate are deliberately low. We are only at about 3% return because we want to have a developmental impact. It would also have a significant impact on our governance arrangements, as we are currently a 100% shareholder.

The second question—is it an impossible ask? No, we do not feel it is an impossible ask. It is tough, but if you look at our investments in solar power around Burundi and CAR, that is a really good example of something that is extremely unlikely to have been done by a normal commercial investor. These are high-risk investments, generating a relatively low return. We are only able to do it because we are a DFI with that patient long-term investment policy.

The third question? I am so sorry, Mr Graham.

Q15 Richard Graham: Sixty-three countries at the moment. What about Palestine, for example?

Rory Stewart: This very interesting discussion has gone back and forth. As you are aware, the International Development Committee asked CDC to look strongly at investment to deal with the crisis around Syria and at what we can do to help bring stability to the middle east, for example. At the same time, other members of the IDC tabled amendments to the Bill that would not only take us out of middle-income countries in the middle east but would restrict investment to the countries with which DFID has bilateral programmes. My gut instinct is that that is an issue not for primary legislation but for Departments to address through their strategy in response to a changing world.

Q16 Stephen Doughty (Cardiff South and Penarth) (Lab/Co-op): I apologise for my late arrival. I was hosting a general from the British Army. Minister, I want to ask a very specific question about where these figures come from. I want to probe you further on them. You answered a written question from me yesterday—for

[Stephen Doughty]

Hansard, it is 55702—and said that the only capital requests that you received from CDC were for the £735 million. You said that you have not had any others. Can you be clear about whether CDC has requested capital increases to you beyond the £735 million?

Rory Stewart: The process is threefold. We will seek permission from Parliament to be able to recapitalise CDC. We want to know whether you are prepared to allow us to give any more money to CDC—£1, £10, £1 billion or £6 billion. We are looking for the option to give it more money. Then we will produce the five-year forward strategy for CDC, which will come together at the end of the year. Then we will produce a business case in the summer to lay out what we believe, in consultation with CDC, its likely requirements are in order to prepare our promissory notes. The final stage is that CDC will make a request on the basis of the projects it has. That is exactly what we have done with the £735 million.

We have discussed the ceiling that we are proposing to you in detail with Graham and Diana. At this early stage, they believe it is a reasonable maximum limit for the amount that they could conceivably need between 2016 and 2021.

Q17 Stephen Doughty: Who came up with the figure? Was it Ministers or CDC?

Rory Stewart: We did. Our Department came up with the figure.

Q18 Stephen Doughty: Okay. May I ask you a separate question? A minute ago, you said that CDC's support to India is targeted at the poorest states, but you told me yesterday in a written parliamentary answer—55689—that the majority of new disbursements are still going to the richer states in India. In fact, the top disbursement is to Maharashtra, which is where Mumbai is located. You told me that 42%—that is only this year; it has been going up steadily—goes to the poorest, but the majority goes to the richest. Can you explain why that is, and do you want to clarify what you said earlier?

Rory Stewart: My understanding of what is happening there is that every business case in India needs to be scored against our development impact grid. To achieve the score that we are looking for—I believe it is a 2.3 score, and we are generally crossing 3.0—we have to reconcile on the X and Y axes the number of jobs that would be created through the investment. In other words, we focus on the sector, then on GDP per capita, which is broken down by state, then on the difficulty of investment, and then on the amount of available capital. Any investments, even in the wealthier states in India, will have gone through that grid.

Q19 Stephen Doughty: But the majority is not going to the poorest states. Is that correct?

Rory Stewart: Let me hand over to Diana on this.

Diana Noble: Can I explain our strategy? In a lot of cases, when you want to help poor countries, it is better to back businesses that exist elsewhere and encourage them to expand into those countries. Therefore, a lot of our investment is about the vision that we can create through these investments.

Let me illustrate that with a quick example. Last year, we invested in a mid-size Indian bank—RBL. The vision was to help it expand its business into rural areas, to the rural poor and into poorer states. That is, as I am sure you know, a big priority for the Modi Government. CDC did not just provide capital to RBL; we also helped it with expanding financial literacy training to 25,000 really poor women in Madhya Pradesh to explain to them how they can benefit from savings accounts and bank accounts. There are already results from that. RBL now has 1.9 million new customers in the rural and poorer areas. We are evaluating that by doing a random sample of loans to understand how that translates into new jobs as well. That is a really good example of our having a partnership with a high-quality operator, going to poorer places, helping them and sharing the results.

Rory Stewart: I did not answer your question directly. The answer at the moment is that, from our portfolio, 42% of the investment in India goes into the poorer states. The rest—the remaining 58%—does not go into the poorer states, but into states where we believe the business will benefit the people in India who are in need. Many of those investments are intended to be regional investments, so we may invest in a bank, for example, that is not located in one of the poorer states, in order to benefit ultimately the people in the poorer states.

The best way to evaluate such decisions is by looking at the individual investment and giving us an opportunity to discuss with you the individual company in which we have invested, so that we can discuss our theory of change. It is difficult to decide whether to make a regional investment to help the poorer states or whether to go straight to the poorer states. I think we should be accountable and talk to you about those individual investments so that we can explain why we have a theory of change and investment in a particular company.

The Chair: We need to move on.

Q20 Fiona Bruce (Congleton) (Con): I would like to ask Diana about job creation. You say that one of CDC's key strategic aims is to achieve development impact focused on job creation. How do you measure jobs that are created directly and indirectly? Last week, the National Audit Office said in its report that progress on measuring job quality has been slow. How are you working on that? How are you measuring productivity, quality of jobs and income levels?

Diana Noble: As you rightly point out, we focus on jobs because we believe a job is the first and the best step out of poverty. I think everyone on the Committee understands the difference that a job makes to someone in a poor country: to them and to their family. When we talk to workers it is clear that they also use the income particularly to educate their children, so it has a benefit for future generations. How do we measure job creation? This is something that we take very seriously. Two years ago, in partnership with some academics, we put in place a way to measure job creation across the whole of the Africa and south Asia portfolio.

We are the first DFI to collect data from all our portfolio companies. We do not just collect headcount data; we also collect revenues, supply chain, purchases, work and wages as well. The academic uses that to calculate not just the direct job creation but the indirect job creation. As you can imagine, some of our priority sectors, such as financial inclusion and particularly infrastructure and power, have a far greater job impact beyond the direct jobs. So we have now published the methodology on our website. We are going to go through a peer review process because we want it to become one of the industry standards. We have shown the data from that for two years now. We can start to compare and contrast it. It shows that the portfolio has created over 1 million jobs in the past two years. That is a number we take immense pride in.

You also rightly talked about job quality, because it is not just about volume. Quality has lots of different elements to it. What all of us sitting in this room might consider a good job is not necessarily so with the lens that you should use in the countries where we invest.

On job quality, before we make an investment, our fantastic environmental and social team go and sit down with the company and do due diligence on them. They say, "Are you up to standard, particularly in the areas of health and safety?" If they are not at the right standard, an action plan is agreed with management and put in place.

The second thing we do is collect data across the portfolio on fatalities and serious accidents. We have been doing that since 2008. We have very rich data now and have been able to combine that and give training back to portfolio companies and fund managers about the areas that lead to fatalities and serious accidents. We think that gives huge added value to our portfolio.

We are going further than that. We are collecting information on lost time injury frequency, particularly for manufacturing and construction—places where workers are potentially put at harm. We are looking at staff retention for some of our larger investments, because we are advised that it has a big correlation with job quality. We are doing an evaluation in Bangladesh at the moment—everyone on the Committee will be aware of the issues in garment factories there—to try to understand what workers really want out of their jobs, so that we can build that in. There is a big element of learning. We are on a journey, and there is still a long way to go.

Jeremy Lefroy (Stafford) (Con): The question I wanted to ask has been asked, Mr Streeter.

The Chair: So we move on to Patrick Grady.

Q21 Patrick Grady: I want to press you a little bit more on some of the policy and decision making and the opportunities we have with the Bill. ODA has a clear definition, and the various international development Acts put in place a duty to achieve poverty reduction, but is that sufficient for CDC, as was? We have heard about these business cases and impact grids. All these are policy-level decisions. The 1999 Act does not mention poverty, impact or international development. So, why not take the opportunity with this legislation to do what some of the amendments are attempting to do, which is to make it clear that CDC would have a statutory duty to meet those objectives or, at the very least, to put some of these processes into the legislation? Would that not help to reduce the risk of backsliding, returning to the days of excesses and concerns—which, I accept, are in the past?

Rory Stewart: Mr Grady, broadly speaking we are in sympathy. We are very clear that we expect all investments made by this Department to aim at poverty alleviation and, to relate to one of your amendments, to reinforce the sustainable development goals. The particular space that CDC operates within is our economic development space. We believe that the correct way to respond effectively to a changing world, to allow Ministers and elected Governments to put their policies through, is through the process we have of setting strategy and governance. One thing I was pleased with in the NAO report was the praise it brought forward for our governance. Any money we give to CDC has to follow that test. That is the fundamental test applied, whether we are giving money to CDC, IFC or a UN agency, or whether it is any of the £5 billion a year of multilateral spending. The way in which we control it is through not primary legislation but Government strategy documents.

Graham Wrigley: May I add, from the CDC perspective, that we have developed some organisational principles and pillars that we have shared with the shareholder? They cover the following things. The first is that our purpose is development. That is why everybody at CDC is there—Diana, me and everybody else. Secondly, we are the world's oldest DFI, set up by Clement Attlee, supported by both major parties over the decades and 100% owned by the UK shareholder. We are very proud of that fact.

We have to balance—a question was asked earlier about this—development impact and financial return. That creates perpetual paranoia about whether we get the right balance. We see our goal as meeting the needs, and Diane will give you an example of that in a sec—

The Chair: She might not. We will draw things to a close now with two more quick questions.

Q22 Stephen Doughty: Some new research by the House of Commons Library suggests that CDC's new investments, as a proportion, to Africa are actually falling over the past few years, with a majority going to south Asia, largely to India. Are you satisfied with that, given the poverty focus that is supposed to exist?

Rory Stewart: These are all really good questions. Fundamentally, things will change year on year. We would expect that with an investment strategy, because these guys have to make very difficult decisions. The NAO has been very clear that it does not want DFID Ministers micromanaging or interfering in the individual business decisions of CDC. I hope you would agree with that: if we were in the business of signing off on every single investment CDC makes, it would become a political arm of the Government, where we could be directing it to how it invests.

We set the overall strategy and framework; we have taken CDC out of places like China and given it the freedom to invest in south Asia and Africa. We have agreed a development grid; we are conducting a lot of research on how that happens, but I think it is perfectly reasonable that over a period more investment one year might go into south Asia than Africa. I think the way that we deal with that is through the next strategy that we produce, continuing this process of tightening accountability, but I do not think it is appropriate for me to start vetoing individual investment decisions by the board.

Q23 Alison McGovern: In this session, Minister, you said that you do not yet have CDC's strategy, which we knew. We have discussed the fact that there was not much clarity about investments in India and whether or not they were going to the poorest states. You have explained that you are expecting CDC to increase the risk of the investments it makes at the same time as you are radically increasing the amount of capital available to it. So just for clarity, which do you believe to be CDC's greatest priority? Is it the reduction of poverty; or is it return on investment, so that the CDC has continuity of capital?

Rory Stewart: The priority of CDC has to be to do good without losing money. The point is not to lose money while doing good, so we are focused on jobs and economic development without losing money. That is the guiding principle that CDC follows in everything it does.

Stephen Doughty: It's not poverty—

The Chair: Final question.

Rory Stewart: I am sorry; there was a strange comment coming from Mr Doughty who, when he is not texting, throws things from the chair. We believe very strongly that economic development and job creation are absolutely core activities in the elimination of poverty. The distinction that Mr Doughty is trying to draw between economic development, job creation and poverty alleviation is extremely unorthodox and it is not one that the chief economist of our Department, or indeed any of the officials of our Department, would accept.

Q24 Imran Hussain: I have a final question for the Minister. While the CDC has made some progress since 2011, as I have said in the Chamber, does he at least accept that there is room for improvement around a greater focus on poverty alleviation, around greater overview and scrutiny and avoiding tax havens and so on?

Rory Stewart: Yes, we need to continually improve. One reason why this debate is useful, and why the primary legislation is useful, is to shine a light on all this stuff. None of us is at all complacent. These things are very difficult. The DFI is the leader in the world, we believe, in terms of trying to measure things that are very difficult to measure—how to treat job creation and economic development in some of the toughest environments in the world. We can keep improving and you are absolutely right that those things you have mentioned are exactly the kinds of things that our new strategy will attempt to improve, including, for example, caps on the amount of investment that goes to India.

The Chair: Thank you for getting that all done within time. We thank our expert witnesses and the Minister.

Examination of Witnesses

Sir Paul Collier, Tom McDonald, Terry Caulfield, Saranel Benjamin and Gideon Rabinowitz gave evidence.

10.30 am

Stephen Doughty: On a point of order, Mr Streeter. May I clarify something? The Minister made a comment a moment ago about me allegedly texting. I have actually been checking his written answers on my phone, which allows me to check the parliamentary system.

The Chair: That is perfectly in order. Thank you for clarifying that.

Greetings to our second panel. We are going to hear evidence from the National Audit Office, War on Want, Oxfam and Sir Paul Collier. Would you please give your names for the record?

Sir Paul Collier: I am Sir Paul Collier. I am professor of economics and public policy at Oxford University.

Tom McDonald: I am Tom McDonald. I am the National Audit Office director responsible for value for money audits of the Department for International Development.

Terry Caulfield: I am Terry Caulfield. I am an audit manager at the National Audit Office, responsible for our work on the Department for International Development.

The Chair: Terry, you may need to speak up a little bit. We did not quite hear all of that. It is fine for now, but I mention it for future reference.

Saranel Benjamin: I am Saranel Benjamin. I am the international programmes director for War on Want.

Gideon Rabinowitz: I am Gideon Rabinowitz. I manage Oxfam GB's work on development finance.

The Chair: Thank you.

Q25 Kate Osamor: Thank you, panel. This question is for all panel members. Do you feel that CDC is sufficiently focused on poverty eradication in line with DFID's outcomes?

Sir Paul Collier: In a word, yes. I have been working on Africa for 40 years and it has been frustrating, because Africa is still poor. This year, per capita GDP in Africa is falling. We have a quiet crisis of trying to rekindle African growth. There is no secret about what rekindling growth and getting out of poverty means: it means raising the productivity of ordinary people and we know how to do that. Raising the productivity of ordinary people is what proper firms do. They perform a miracle of productivity every day by bringing ordinary people together at scale and specialisation, and making them dramatically more productive than they would be as isolated individuals. Africa is desperately short of proper firms, and the public interest in getting proper firms to go to Africa is enormous. That is the underlying rationale for CDC, and that is what it is doing.

CDC went through a very poor patch with this fund of funds idea, which was a crazy idea. It now has really expert management. What CDC is doing, and what DFID is doing to support it, is absolutely standard. This is what International Development Association money, which is the collective, concessional money given by the world's rich countries to the World Bank, is being devoted to. The transfer to the International Finance Corporation—*[Interruption.]* I will shut up.

The Chair: Thank you, Sir Paul. Let us hear from Oxfam and War on Want.

Gideon Rabinowitz: Thank you for having us on this panel; we appreciate it. Oxfam recognises the importance of investing in economic development and the private sector as a fundamental part of our development efforts. Economic development needs to be a core part of what DFID and the British Government do with regard to aid. Our concern is to make sure that any aid funds that are invested in those causes really support the right types of jobs, growth and investment that reach the very poorest. The international community agreed at the UN that all development effort should be focused on reaching those left behind. That needs to be the prism through which we see this. Given that prism, we recognise that the reforms agreed in 2011 to CDC were a really important step forward. They focus CDC more on the poorest countries and strengthen its focus on looking at development impact and its investment standards, but we also think that that is the start of a journey that CDC needs to go on in the coming years to ensure that it is focused not only on DFID's mission of development and poverty reduction, but on the international development community's focus on leaving no one behind.

We want to note a number of areas where we think CDC can do more. The first point relates to its focus on the least developed countries. Only 12% of CDC's investments currently go to the least developed countries—the most economically and socially vulnerable countries as measured by a comprehensive index by the UN. We have some questions about whether the sector focus is right. Agriculture, where the majority of the world's poor make their livelihoods, accounts for only 5% of CDC's investments at present. A decade and a half ago that figure was one third. There needs to be a re-engagement in sectors such as agriculture.

The Chair: I am sure that those points will come out in further questions; this is becoming a bit of a statement.

Gideon Rabinowitz: I will be very brief. The final point is that, whatever new resourcing authority is given to the Government through the Bill, we want it to leverage a continued focus on ratcheting up CDC's development performance on those issues.

Saranel Benjamin: War on Want's position is that we believe that UK taxpayers' money should not be given to private funds that are going to be investing in projects, because that is basically getting returns on poverty—off the backs of the poor. It makes us very uncomfortable that UK taxpayers' money is being used for that purpose. However, as we heard from the first panel this morning, the percentage of projects in which CDC is investing in Africa has reduced significantly. We were talking about agriculture; we have moved away from projects that were supporting small-scale farmers to those supporting large-scale agribusiness. That is causing displacement of people whose lands are being taken away and it is also creating a loss of livelihoods. I wonder how that goes together with the whole question of poverty eradication, when we are actually perpetuating it. I will come back to that later and maybe talk about a case study that we are looking at.

Q26 Stephen Doughty: I have a question to the National Audit Office. You have visited a number of CDC projects as part of your review, and you obviously saw some very positive examples in CDC's portfolio. I think we discussed one in Sierra Leone, but you also visited a number of those in India—I believe it was Terry who visited those projects. Could you say a little bit about the projects that you visited, particularly with regard to the investment in healthcare? I know that CDC is investing in a lot of private healthcare in India, but not necessarily specifically in stuff that benefits poorer people—it is more a kind of general investment.

Terry Caulfield: Yes, we visited two healthcare facilities in Bangalore in India. One of them was perhaps more intended for middle-income families and one was more down the lower end. We came away with the feeling that they were doing a range of things. At the lower end, they were trying to provide maternity facilities for families who would not otherwise have access to them, perhaps for financial or educational reasons or because of other hurdles that they might have had to get over. In that particular case, they were looking to expand the facility in that location and then use that to expand further out. Against the backdrop of an understanding of how access to Indian healthcare works, they were coming in at a number of different levels. There is a diversity there.

Q27 Stephen Doughty: You make a big point about the issue of prospective development impact and whether CDC can prove its impact. Were you concerned when you heard the earlier panel talking about investments in richer places that theoretically will lead to jobs for poorer people, as people perhaps move to cities and take advantage? Do you think that is a bit too hazy? Can you explain a bit more about where you felt the CDC could be doing better to demonstrate impact?

Tom McDonald: One of the things that struck me from the projects that I visited in Uganda and Kenya was the need for a portfolio approach. Some of the projects clearly will have more of a development impact, and some will clearly do better financially. Some of them are harder to measure than others, particularly if the investment is through a fund or an intermediary.

In the report we say that, despite Parliament having expressed some concerns in 2008 and 2009 about how CDC measures impact, CDC has still been a little slow to put together a comprehensive picture of the approach it would expect to take, together with DFID, to provide Parliament and the taxpayer with a good view of what impact looks like. I should say that we are not suggesting that there is some simple way of doing that. Measuring all the different indirect and direct effects of the investments is complicated. For example, to answer your question directly, there was a commitment in 2012 to put together a measure of what quality of employment would look like. It has not made much progress on that. It has plans in place to try to evaluate some of its major investments and to improve the impact reporting, but for us, it is about the pace and comprehensiveness of that reporting.

Q28 James Duddridge: May I ask Sir Paul Collier a question in relation to the amount of capital that CDC has? There seems to be a view that CDC can absorb about £1 billion a year. Given your work on urbanisation and the vast amount of infrastructure investment that is needed, do you think that CDC could be challenged to spend much more on an annual basis or to ramp up to that point? That relates in particular to funding the urbanisation that Africa needs to attract the companies that you referred to earlier.

Sir Paul Collier: Africa is going through a rapid and very necessary urbanisation. Africa's future is urban, but not all cities are environments in which ordinary people can be productive. You can have a mega-slum. At the moment in Dar es Salaam, the modal enterprise has one worker: scale zero, productivity zero, specialisation zero—doomed. Cities need to become platforms where proper firms can function. They need energy supplies and decent connectivity. That is what the infrastructure is there to do, basically: energy and connectivity. That is expensive.

Q29 Stephen Doughty: CDC could spend £1 billion just in Dar es Salaam.

Sir Paul Collier: CDC needs to scale up and scale up fast. I am hesitant about tying it in knots trying to get precise measures for this and precautionary measures for that, when the reality is that there are no techniques out there. Everyone is trying to build better measures. The International Finance Corporation has just hired for the first time a chief economist at vice-president level, designed to do that. People are trying to develop techniques, but it is difficult. To my mind, CDC's priority, now that it has got sound, motivated management, needs to be to scale up. The task ahead for Africa is to get both the infrastructure and the private firms in before it is too late.

Q30 James Duddridge: Should not we be encouraging it to give more than £1 billion a year?

Sir Paul Collier: Yes, of course. The future of aid is to get decent firms to go to places where they will not make much money until there are lots more of them.

Q31 Alison McGovern: Very briefly, obviously there is a massive need for capital in Africa, and the question is how we should spend UK taxpayers' money. I would like to come back to you, Tom. As we heard in the previous session, we are asking CDC to take increased risks with quite a lot of increased capital, but we do not yet have its strategy. Do you think that that approach is probably the wrong way round?

Tom McDonald: There is a cart-and-horse problem here, is there not? One of the things that we saw in the 2015 recapitalisation business case was that the Department did go through a thorough process of assessing, in collaboration with CDC, the art of the possible. There are good foundations on which the Department can build.

One of our worries, which we set out in the report, is that CDC has to be comfortable that it can absorb this money in two ways. One is internally: does it have the capacity to grow, still be agile and make decisions in the way it has done in the past? That is its internal operating model, if you like. The other is whether it has access to all the opportunities for investment. Now that it is again in the business of direct investment, that requires a lot more effort from the teams that are putting together these deals. There needs to be a discussion between the two bodies over the remainder of the spending review period, or the Parliament, about whether DFID is clear about what it wants from CDC, where it wants CDC to operate, and the principles on which it wants it to work. From CDC's perspective, can it cope with the volume of money and can it, in good faith, invest all that in a portfolio of deals that will still allow it to meet its targets?

Gideon Rabinowitz: I have a very quick point to follow up on that. As well as our mission to tackle the injustice of poverty around the world, we are very keen in our work and our engagement with the development community to push for adequate public scrutiny and trust in the work that the British Government and institutions such as CDC do. We think that needs to be central to this debate, so these are really good issues that we are discussing. The absence of this investment strategy is making it a little difficult to get a fuller perspective. There is clearly a dynamic situation around CDC. I have looked at the business case for the last capitalisation last year, which said,

> "CDC has previously determined that given investment needs, it could productively deploy up to £1bn of additional capital."

We heard from this morning's witnesses that that situation seems to have changed. An additional point was made in the business case that, of the £735 million that DFID allocated to CDC last year, it would need to go beyond that only in 2019. It is a very fluid situation, and the lack of clarity over that investment strategy and how the situation on the ground with CDC is changing poses challenges. It is important to get that clarity.

Q32 Richard Graham: A very quick question for you, Tom—probably a one-word answer. If I got you right earlier, you were calling for a more effective measurement of the quality of jobs generated by CDC. Do we have such a measurement in the UK?

Tom McDonald: A one-word answer would be no.

Q33 Richard Graham: Thank you. Saranel, it is clear that you would not want to see any money going from the taxpayer to CDC that would mean either selling it or closing it down, or possibly both. How would that help DFID achieve its goals of supporting businesses and jobs in the developing world?

Saranel Benjamin: I think we differ in how we see development. However, the fact that CDC is operating without a strategy begs the question of what it is prioritising. Why would one prioritise private education or schools, or private healthcare, in countries where the majority of people are not getting access to that? How does that justify the better use of UK taxpayers' money? I think the question was raised earlier about whether we are choosing poverty reduction or profit-making.

Q34 Richard Graham: Okay. So you are against specific investments that have been, or might be, made. Are you against investment in businesses full stop?

Saranel Benjamin: I am against using business to conduct development in the global south.

Q35 Richard Graham: So you do not believe that creating jobs through business is a constructive way of meeting development aims?

Saranel Benjamin: I don't think that that is the only thing that should be done in terms of development, but from CDC's point of view, that seems to be not just about job creation, but about supporting projects that have absolutely nothing to do with poverty reduction. I cannot see how supporting top-level real estate in Kenya, for example, is about poverty reduction.

Q36 Patrick Grady: I just want to ask any panel member who might want to reflect on the levels of transparency in CDC and the opportunities for parliamentary scrutiny. I particularly want to ask the reps from War on Want and Oxfam how their transparency in reporting requirements from DFID have changed in recent years and whether they have any views on how they should apply to CDC.

Gideon Rabinowitz: Oxfam is a signatory to the international aid transparency initiative, which is the comprehensive aid transparency framework that is applied across the development community. The initiative was started and promoted by the UK Government, who have obviously played an important leveraging role in promoting transparency across the world.

We are ambitious implementers of IRT and in our dialogue with DFID right now, we are being encouraged to look at how we can apply those standards and the standards introduced by the initiative further down our supply chain with our local partners. It will be a challenge, but one that we shall pursue head on. Throughout the chain of delivery partners we work with, we will look at ways we can address those standards.

One of the questions we think it would be really useful for the Committee to think about is, how—whatever is agreed through the legislation—can we help to ratchet up the level of transparency of CDC? It has made progress, but the last time it was assessed against IRT standards, it scored "poor". We have not seen a fundamental change in the level of information that is currently reporting, so it has some catching up to do. We hope this legislation can help.

Saranel Benjamin: That is a really good question, because while listening to everybody talking, I was thinking that when we have to apply to DFID for funding, there is absolutely no way we would get funding if we just went and said, "Can I have £500,000 and I will give you the strategy later?" That would never happen for the development sector.

Q37 James Duddridge: You are not owned by DFID. It is not like for like at all, is it?

Saranel Benjamin: No, but it is still the use of taxpayers' money, which DFID—

James Duddridge: It is a ridiculous comment.

Saranel Benjamin: No, DFID subjects the development sector to a number of processes involving deep scrutiny of all our work. It does not do that with CDC. The fact is that a case study such as Feronia, for example, can exist. Either CDC can say that it did not know that it was happening or DFID can say that it did not know that it was happening. It seems to me that there is a lack of oversight.

Q38 Fiona Bruce: Can I ask Terry and Tom about value for money? How should CDC be scrutinised by the various bodies that will scrutinise it, assuming it gets this increased money—DFID, Parliament, the International Development Select Committee, ICAI and the Sub-Committee on the Select Committee, which I chair, which scrutinises ICAI? In view of the increased funding, how can we ensure that we scrutinise value for money effectively? What measurements should we be using?

Tom McDonald: That is a very good question. The first duty is with DFID as the shareholder. What we have seen of the reforms that have been put in place since 2012 is an increased volume of reporting from CDC back to the Department, characterised by a no-surprises policy. CDC is very clear that if it is thinking of undertaking something new or innovative it will consult with DFID first. Similarly, it will have quarterly shareholder meetings and with the shareholder produces a significant volume of information. These are all improvements from the previous regime that Members have talked about before and they help to mitigate the risk that CDC at some point in the future might engage in some of the poor behaviour that we saw previously.

That is the first line of defence in terms of scrutiny. Who else might do that? We will clearly continue to have an interest. We have been writing reports on CDC for at least 20 years. Obviously, it is up to Parliament how else it wishes to do that. The difficulty, as with other aspects of DFID's spending, is following the money. We have this problem with multilateral expenditure. When DFID makes a payment to a CDC or a multilateral body, it is quite for us as the auditors to track that money through to the eventual point of impact. We have to be creative about it and find ways of doing that. It is not straightforward.

Q39 Fiona Bruce: I am probing a little, if I may. You say that it is up to us how we do it, but you have just spent eight months looking at CDC day in and day out. I am seeking to glean the benefit of that detailed insight when the Independent Commission for Aid Impact and our Sub-Committee, which scrutinises it, looks at the issue. What should we be focusing on? Where should we be asking questions?

Tom McDonald: If you look at our value for money conclusion, we essentially divided it between, on one hand, the economy and efficiency with which CDC was being run and with which DFID was overseeing it, and the effectiveness of CDC. Looking at the first two e's, we concluded that DFID's oversight of CDC has improved considerably, and that CDC's operating model is now pretty economic and efficient. It is a pretty good way for CDC to organise itself and spend the money that DFID has allocated to it.

On the subject of effectiveness, which we discussed at the beginning, this is clearly not an easy thing, but we still think there is more to do. There is more on which DFID could press CDC, and there is perhaps more on which Parliament could press both DFID and CDC to give a better picture of what CDC itself says is its ultimate objective: changing people's lives, not just creating jobs.

Q40 Imran Hussain: Just a further question to Ms Benjamin from War on Want, to follow up from colleagues. I am slightly lost. Are you saying that you are principally against the development finance institution model—that would considerably weaken where I thought you were coming from—or are you concentrating on specific instances where you think the money was not spent well and most efficiently to target poverty alleviation? You gave the example of the Republic of the Congo. Can you elaborate on that and be more specific about where you are heading? I am slightly confused about where you are going with it.

Saranel Benjamin: As I said, we come from very different development backgrounds. For War on Want, a charity that works with partners in the global south, it is not about creating jobs; that is our approach. We are about supporting grassroots communities and organisations to allow them to envision the change that they want to see in their own countries. For me, when I see a private firm like CDC investing or looking for opportunities, I see it looking for an entry point for the UK to make a profit in the global south. For me, that is what it looks like. Given the use of tax havens, those countries are not really benefiting from what is being invested in those countries.

Again, look at the quality of jobs being created. Feronia in the DRC is one example. Workers are being paid less than $2 a day. Are you telling me that that is poverty reduction? Is that job creation? There is a dispute about the land on which Feronia operates; it is a 100-year-old land struggle. The largest investor in Feronia is CDC, which holds 67% of the investments owned in Feronia. The land dispute has been going on for a number of years, and communities have been displaced off that land. CDC claims that it is all legitimate, but it refuses to make the lease agreements or concessions publicly available. We have requested them from CDC, and have yet to have an acknowledgment that the email was received.

The Chair: Are you happy with that answer, Imran?

Imran Hussain: Yes.

Q41 Rory Stewart: Very quickly, for Tom McDonald and Sir Paul Collier, Saranel has just said that CDC exists for the UK to make a profit in the global south, and the countries are not really benefiting from those investments. Do you agree with that?

Tom McDonald: We did not assess the whole portfolio, in terms of the impact that it was having. We have to rely to some extent on the prospective assessment of impact that CDC is now doing on a regularised basis for all its investments. I honestly cannot give a yes or no answer as to the impact on the south.

Q42 Rory Stewart: Do you agree that the prime purpose of CDC is for the British Government to make a profit in the global south, and that our investments are not benefiting the people in those countries, which is Saranel's claim?

Tom McDonald: From what we saw when we visited the projects in east Africa and India, there is a clear desire to benefit the people of those countries, as well as for CDC to achieve its own targets.

Rory Stewart: Sir Paul?

Sir Paul Collier: It is not worth entertaining, I am afraid.

The Chair: Well, just answer the question, if you will.

Sir Paul Collier: I am sorry. It is self-evident that the path out of poverty involves business. It is also self-evident that not enough modern business is going to these very poor countries. So it is a very strong public interest to use public money to try and encourage firms to go to areas where they are needed but where they will not make much money. That is the rationale for the whole of the development finance institution enterprises. Clearly, CDC is controlled by DFID; DFID is controlled by Parliament; and the objective of getting people out of poverty runs right through both organisations.

Q43 Rory Stewart: Just as a quick follow-up, Sir Paul, you have used the phrase "public risk capital"; would you expand a little bit on what you are saying about the need for public involvement?

Sir Paul Collier: Yes. These environments are risky environments, in which there are not great amounts of money to be made by private enterprise. That is why so few firms go there. So one of the purposes of public money is to bear some of the risk. I believe we should be prepared to lose some public money in incentivising firms to go to places where there is a public interest. Parliament has not, and DFID has not, authorised CDC to go that step—yet. I very much hope that that will happen. In the negotiations for the latest International Development Association round—IDA 18, which is being signed this month—the World Bank's aid arm is authorised to lose money in International Finance Corporation investments, to get firms to go to places where there is big public interest. We are on a journey, and scaling up CDC is part of that journey.

Q44 Richard Fuller: Just on the issue of low-tax environments and tax havens, and their use by CDC, I am not sure if you were all present for the earlier evidence session, in which a question was asked about that, but essentially the point was that in a number of the locations in which CDC operates they do not have the financial infrastructure or probity to encourage either CDC or other investors around that. Do you think that CDC makes effective and good use of tax havens in its investing, and do you have any concerns about that?

Sir Paul Collier: I should say that I was instrumental in the British G8 trying to clamp down on secrecy havens and get the compulsory register of beneficial ownership, so I had a lot of fight to push this agenda forward. The use of the overseas territories for registering companies has a triple function: sometimes it is a tax haven, which is bad; sometimes it is a secrecy haven for banking, which is worse; and sometimes it is a neutral administrative centre for a lot of third-party investments. If a company from the middle east wants to invest, along with a company from India and a company from Singapore, along with CDC, they try to find a neutral territory.

Q45 Richard Fuller: So CDC is the third of those.

Sir Paul Collier: Yes, where CDC is a party in it, and often it will be—

Q46 Richard Fuller: I think we understand, but I appreciate you clarifying. Mr McDonald, from the point of view of the NAO?

Tom McDonald: We did not actually look at that in our reports—

Q47 Richard Fuller: Do you have any concerns about it?

Tom McDonald: I am aware of the CDC's position, but we have no view as to—

Q48 Richard Fuller: If you had a concern about it, would you have looked at it?

Tom McDonald: *[Pause.]* I suppose—

Q49 Richard Fuller: I think one can infer that you did not have a concern, as you have done an extensive review of CDC and you did not even think about it as a topic to look at.

Tom McDonald: We did consider it at the beginning. It didn't—

Richard Fuller: Oh, you did consider it. But it wasn't a priority.

Tom McDonald: It didn't emerge as a priority.

Richard Fuller: You are quite evasive, Mr McDonald, in your answers. I mean, just in the answers to the Minister you were quite evasive.

The Chair: I don't think that is fair.

Q50 Richard Fuller: Specifically on this, Mr McDonald, you should have told the Committee right at the start, yes, you thought about it, but you didn't think it of concern to look at in your inquiry, shouldn't you?

Tom McDonald: When we start a value-for-money audit, we have to consider a huge number of issues. This was one of the ones that we considered at the beginning but didn't undertake any detailed field work on. Apologies.

Richard Fuller: Thank you. You didn't have any concerns about this really.

The Chair: Was that your last question?

Richard Fuller: It is, Mr Streeter.

Q51 Stephen Doughty: I have a follow-up question for Oxfam or War on Want. I do not agree with everything War on Want says, but a good point it made was about the differing standards that appear to be applied to the CDC as opposed to non-governmental organisations, other multilaterals and so on. The multilateral aid review is pretty robust on how we should deal with multilaterals—publish every item of spending over £500 and so on. Gideon, perhaps you could say a little more about where a double standard might be going on here in expectations.

Gideon Rabinowitz: I have made the point already: it is clear and on the record that the CDC has a bit of catching up to do on transparency. One of the reasons why it would be helpful for it to make progress on transparency is that everyone would then know a lot more about where it is investing, what it is investing in, what the justifications for those investments are, and why it thinks it is providing financial and value additionality in those investments. We would all be starting this debate from a different position if there was greater awareness of what the CDC was doing and how it is working.

The other point that we are keen to emphasise is that if there is some way in which the Bill can leverage that additional transparency to include encouragement of reporting around a wider range of development impacts and indicators to help secure our confidence that the CDC is focused on the right investments, that would be very valuable. The type of indicators that we have to report against in our programmes could be rolled out more broadly in some of those investments.

Q52 Stephen Doughty: May I ask a separate point, Paul? You said, "Take more risk. Get in there. Get things done." Are you not worried that the CDC's profile appears to be declining in Africa and still heavily focused on middle-income countries? Looking at the projects in lower-income countries, there appears to be quite a lot of diversity, but do you think that they ought to be even more risky, more poverty-focused, or more focused on Africa than on, say, India?

Sir Paul Collier: Yes, I do. I should also say that with risk comes an incidence of failure. The CDC is in a risk business in difficult environments; we should all get used to accepting a rate of failure. The CDC should not be judged by the fact that it will have some failures. If it has no failures, it is not doing its job.

Q53 Stephen Doughty: It is too risk-averse at the moment, do you think?

Sir Paul Collier: That may be true, actually. The emphasis on scrutiny, scrutiny, scrutiny, without any understanding of context, drives people into that sort of risk-averse behaviour. Yes, we need transparency and scrutiny, but that has to be in the context of an understanding that the basic mission we want the CDC to do is difficult and will involve a rate of failure.

The Chair: Final question: Fiona Bruce.

Q54 Fiona Bruce: On scaling up and the challenges of recruitment and retention, which are highlighted in the NAO report, I am interested to know whether you think that CDC will be able to meet the recruiting challenge and what particular skill sets are needed for CDC, as opposed to other international development work, bearing in mind that a lot of people want to work in this field. Why will CDC have particular challenges?

Tom McDonald: CDC does face a significant challenge if it is going to make use of additional capital to recruit and retain the people it needs to manage that money. In the past, CDC has found it to be quite a slow process to recruit people at the senior level, but it gets there. The real difficulty is recruiting and retaining people at the middle levels of management, because CDC is competing, effectively, with other funds and private equity employers who can afford to pay a lot more. What CDC has changed is that whereas it used to benchmark its salaries against the private equity industry and therefore pay people a lot more through their overall benefits packages, now it benchmarks pay against other DFIs, which we think is a good step. The danger is that as average pay has come down, CDC is in the process of reconsidering its remuneration framework with DFID. That would be something we would want to watch very carefully, because the pressures on retention and recruitment might start to force that average pay up again next year.

Q55 Fiona Bruce: I was not so much concerned about pay levels—well, I am concerned about pay levels, but I am particularly concerned about the skill sets that you are saying there is potentially a shortage of, or there could be a shortage of, for these particular appointments.

Tom McDonald: I don't think there is an absolute shortage of skill sets. It is about finding the right packages and opportunities to get the right people in to do the job. Because of the change in strategy since 2012, CDC needs a lot more people with experience of making direct investments—understanding the context, as Sir Paul was describing, knowing what an opportunity looks like in a local market, and then being able to put a deal together that makes commercial sense, but also has a development impact. There probably are not that many people who have both of those skill sets.

The Chair: Thank you very much indeed. That brings us to the end of our sitting—

Richard Fuller: On a point of order, Mr Streeter. In some comments earlier about Mr McDonald, I used the word "evasive", which on reflection I think was overly strong. I would not like those to remain without correction.

The Chair: Thank you—much appreciated, and I did notice.

Thank you, witnesses, for all your expert evidence, which has been greatly appreciated by the Committee.

Ordered, That further consideration be now adjourned. —*(Andrew Griffiths.)*

11.12 am

Adjourned till this day at Two o'clock.