House of Commons

Committee of Public Accounts

Department for International Development: investing through CDC

Fifty-fourth Report of Session 2016–17

Report, together with formal minutes relating to the report

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The Committee of Public Accounts

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Summary

The Department and CDC have addressed a number of the significant concerns raised by the previous Committee, such as the issue of excessive remuneration within CDC, and by implementing a new strategy with greater focus on investing in the poorest countries which is better aligned with the Department's priorities. CDC has also met its objectives for the financial return and the expected development performance of its investments agreed with the Department. However, issues remain: for example, neither the Department nor CDC can set out a coherent picture of CDC's development impact, the Department has been slow to evaluate CDC's performance, and the relationship between the Department and CDC lacks clarity.

CDC is on the cusp of significant changes to how and where it invests in developing countries. It is embarking on a taxpayer-funded expansion of its business and needs to appoint a new chief executive. Not only is it moving more to direct investment but government has the power to increase funding to a total of £12 billion. This raises concerns about portfolio management, the measurement of success, and the relationship between the Department and investment decisions. It also faces the challenge of identifying a suitable pipeline of projects in which to invest and building capacity to make investments. At the same time it needs to make sure it controls costs.

Introduction

The Department for International Development (the Department) aims to reduce poverty in part by promoting economic development and global prosperity in the developing world. CDC Group plc (CDC) is the Department's principal mechanism for encouraging private sector investment in developing countries. CDC is a private company wholly owned by the Secretary of State for International Development. CDC's mission is to "support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places".[1] In July 2015, the Secretary of State for International Development approved the business case for a £735 million recapitalisation of CDC to provide further funding for CDC to invest in new projects. The Commonwealth Development Corporation Act 2017, enacted after we took evidence, increases the existing limit of government funding for CDC of £1.5 billion to £6 billion.

1 CDC Group plc, Annual Accounts 2015, accessed 20 April 2017

Conclusions and recommendations

1. **CDC's existing targets for financial and development performance, established in 2012, do not adequately reflect the changing size and nature of CDC's investment portfolio.** CDC has exceeded its targets for both the financial return and the expected development performance of its investments in each of the four years since 2012 when they were agreed with the Department. CDC told us that achieving these targets will become more difficult as it looks to invest in the hardest places. These targets relate to CDC's overall portfolio (which includes different types of investment in funds, and equity and loans) and therefore fail to capture variations in performance across CDC's increasingly varied types of investment.

   Recommendation: ***When agreeing the next 5-year investment policy (due in 2017), the Department should review the nature and values of the targets it sets for CDC, to make sure they reflect the diversity of CDC's investment portfolio and economic trends in the countries in which it is investing.***

2. **It is difficult to determine what wider economic development impact CDC has achieved.** CDC's assessment of its development impact assesses expected rather than actual development performance. The Department and CDC supplements the two existing performance targets covering the financial return from investments and development performance with other indicators seeking to capture broader aspects of CDC's performance, such as the number of jobs created and improvements in environmental, social and governance standards. However, these indicators lack a target against which progress can be assessed, and there is variability across the indicators as to what is required to be reported and on what basis. The Department approved an evaluation of the development impact of CDC's investments almost two years ago but has not managed to recruit a person with the right skills to supervise this work and has yet to let the contract for the evaluation, undermining its ability to understand CDC's performance.

   Recommendation: ***The Department and CDC should design and publish an evaluation plan for CDC to sit alongside the new investment policy being prepared. The Department should also, as soon as possible, and in advance of any further increases in CDC's funding, let the evaluation contract agreed as part of the business case to recapitalise CDC.***

3. **The relationship between the Department and CDC is confused.** As the sole shareholder in CDC, the Department has the power to appoint its own member to the CDC board. But the Department has not done so, apparently on the grounds that it does not have a member of staff with the requisite knowledge of investment decisions. Neither the Department nor CDC could say whether the Department has a power of veto over investments decisions, dismissing the issue as hypothetical. Given the Department's current and expected investment in CDC, and CDC's importance to the successful delivery of the Department's economic development strategy, such confusion needs to be resolved.

Recommendation: ***The Department should write to the Committee by the end of July 2017 setting out a detailed rationale for the current arrangements. The Department should also look again at governance arrangements, including:***

- ***having a representative from the Department, as sole shareholder, on CDC's board;***
- ***clarifying whether the Department can veto or influence investment decisions.***

4. **The Department approved the business case for the £735 million recapitalisation of CDC in 2015 without seeking investment advice from external experts.** The Department considers that it does not have the relevant expertise inhouse to involve itself in individual investment decisions made by CDC. However, it maintains that it did have sufficient expertise to approve the business case for the £735 million recapitalisation of CDC without obtaining external assurance from investment experts. This echoes our findings on the St Helena airport fiasco where we found that the Department had not commissioned an independent adviser with the necessary technical expertise to corroborate or challenge advice received. The Department told us that it would need to look 'very hard' at whether it had the right skills to build a business case to justify its next investment in CDC. We are concerned that the Department may come under pressure from Ministers to provide further funding to CDC without sufficient evidence of a strong investment pipeline needed to determine whether the funding would provide value for money.

    Recommendation: ***To make sure it is acting as an intelligent customer, the Department should employ external investment experts to quality assure, and provide independent challenge to, future business cases recommending further investment in CDC.***

5. **CDC faces serious recruitment and retention challenges which may undermine its ability to meet the Department's ambitions for future investment through CDC.** CDC's change of focus since this Committee last reported (away from a funder of funds model to direct investments and securing a development impact) led to its reorganisation and an increase in the number of people it employs. At the same time, CDC reduced its average pay. The Department's future plans for CDC will require a further expansion in staff numbers. Both the Department and CDC acknowledge that recruitment and retention is a key risk for CDC's operations. Remuneration policy, a key factor in recruitment and retention, is decided by the Department as sole shareholder. CDC's remuneration framework, revised every three years, is currently under consideration by the Department.

    Recommendation: ***The Department and CDC should agree CDC's approach to recruitment and retention alongside agreeing the next five-year investment strategy and three-year remuneration framework. As part of the business case for further investment in CDC, the Department should ask CDC to set out how and when it will secure the right number and mix of resources to oversee the proposed expansion it its business.***

1 Measuring and evaluating impact

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for International Development (the Department) and the CDC Group plc (CDC) on the Department's investment in CDC.[2]

2. The Department leads the UK's work to end extreme poverty. It aims to reduce poverty in part by promoting economic development and global prosperity in the developing world. In 2015–16, the Department spent £2.2 billion, one-fifth of its budget, on economic development in developing countries. The Department's principal mechanism for encouraging private sector investment in developing countries is CDC, a private company wholly owned by the Secretary of State for International Development. CDC's mission is to "support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places".[3] In January 2017, the Department published, for the first time, an economic development strategy. In February 2017, the Commonwealth Development Corporation Act was passed, increasing the existing limit of government funding for CDC of £1.5 billion to £6 billion.[4] The Department has made clear that CDC is and will continue to be the key vehicle for promoting economic development in what it describes as the 'poorest and most fragile countries'.[5]

3. In 2012, the Department and CDC agreed a new investment policy (for the period 2012 to 2016) which narrowed the geographical footprint for CDC's investments, focused CDC on seven sectors deemed to have the greatest potential for job creation, and expanded the range of financial instruments it uses.[6] [7] Between 1995 and 2015, CDC self-financed its business by reinvesting returns from its portfolio into new investments. In 2015–16, the Secretary of State for International Development approved a £735 million recapitalisation of CDC, to enable it to expand the breadth and depth of its business. Ministers are currently reviewing the investment policy.[8]

Assessing actual financial return and potential development performance

4. The Department set two targets for CDC in the 2012 investment policy: a financial rate of return of 3.5% annually across its portfolio, and an assessment of potential development impact target of 2.4 (out of 4) across all investments made in the preceding three years. CDC's performance has exceeded both targets in the four years since the new strategy was introduced. With regard to the financial rate of return, performance has ranged from 4% to 18%, averaging 10.3%. In the three years from 2014 to 2016, CDC's development impact score has averaged 3.05.[9]

2 C&AG's Report, *Department for International Development: investing through CDC*, Session 2016–17, HC 784
3 C&AG's Report, paras 1–2
4 Commonwealth Development Corporation Act 2017, section 1
5 Q48
6 Qq9, 63, 113; C&AG's Report, para 2.2
7 CDC invests in businesses either directly (by investing equity or providing debt) or indirectly (by investing through investment funds)
8 Qq8,54, 116; C&AG's Report, paras 1.4, 1.19
9 Qq88, 90; C&AG's Report, paras 2.8, 2.9, 2.13, 2.15 and Figures 7 and 10

5. When it recapitalised CDC in 2015, the Department decided to maintain CDC's key performance targets as the same level as had been set in 2012. Evidence considered by the Department as part of the business case suggested that a wider range of potential performance was achievable. CDC told us that it expected lower rates of return in the future, citing returns in the region of 4% to 6% for profit-maximising investors in the next five to ten years.[10]

6. CDC uses a range of financial instruments (for example, through funds and with equity) to invest across a range of different sectors (such as infrastructure and finance) in a number of different countries (focusing now on Africa and South Asia). CDC measures its performance across the portfolio of its investments. We asked CDC whether it was considering improving its measurement system to allow for performance comparisons across different types of investment to determine which of its investments perform better than others. For example, CDC has since 2012 met the development impact target across its portfolio. However, 23% of investment commitments have scored below 2.4 since 2013. CDC told us that in its next five-year strategy it plans to be much clearer about the impact it wants to achieve from each investment.[11]

Assessing CDC's wider economic impact

7. This Committee concluded in 2009 that there was limited evidence of CDC's effects on poverty reduction and that CDC found it challenging to collect information to show its contribution in this way.[12] CDC does not have a target for actual development impact but does attempt to measure it using a proxy measure of jobs created in its investee businesses. CDC told us that it looked to maximise the number of jobs the businesses in which it invests creates. It has, since 2012, measured the number of direct jobs created and, since 2014, estimated the number of indirect jobs created (for example, in supply chains, through local wages, and through improved access to power and finance). For 2015, CDC reported that the businesses in which it had invested had created over one million direct and indirect jobs. We asked CDC how it ensured that the measure did not allow double counting of jobs for more than one investment. CDC told us that the methodology it used had been designed by external advisers and that it was currently peer reviewing it.[13]

8. CDC also referred to other indicators of development impact it reports on such as taxes paid into local exchequers, power generated, and additional private sector funding secured by businesses following CDC investment. We asked why CDC had discontinued a number of performance indicators, which made it hard to track progress. CDC told us that the motive behind such changes was an aspiration constantly to improve reporting. CDC noted that the main metrics (jobs created, tax paid, capital crowded in, and power generated) were not measures that had changed and would be reported on year on year. The Department accepted that, despite significant improvements in reporting since 2008, it still needed to do more to enhance knowledge of actual development impact.[14]

10 Qq11, 89; C&AG's Report, para 1.21
11 Q33; C&AG's Report, paras 2.3, 2.8 and Figure 11
12 Committee of Public Accounts, Eighteenth Report of Session 2008–09, *Investing for Development: the Department for International Development's oversight of CDC Group plc*, HC 94, para 9
13 Qq12, 17, C&AG's Report, para 2.16–2.17, Figure 13
14 Qq12–14, 19

9. The Department's business case for the recapitalisation of CDC included a budget for monitoring and evaluation over 15 years by an independent monitoring company, to assess the development impact of CDC's investments. The Department told us that it had planned to recruit an evaluation specialist to manage a longitudinal study but despite trying for a year had been unable to find a person with the right skills. While the Department intended to have another look for such a person it did not want to delay the study and had issued a tender for the contract.[15]

15 Q20, C&AG's Report, para 1.18

2 Preparing for expansion

10. In July 2015, the Department for International Development (the Department) approved a £735 million recapitalisation business case for the CDC Group plc (CDC), the first government funding for CDC in 20 years. Less than two years later, the Commonwealth Development Corporation Act increased the limit on government funding for CDC from £1.5 billion to £6 billion, with the option of further increasing the limit to £12 billion.[16] Given that the Department has identified CDC as the principal delivery partner for its economic development strategy there is a risk of CDC becoming saturated with government funding.[17]

The Department's oversight of CDC

11. CDC is a private company wholly owned by the Secretary of State for International Development. To fulfil its duties as a shareholder the Department has developed a 3-tier governance arrangement, based around constitutional and legal frameworks and a system of internal controls and documentary support. While the National Audit Office described the arrangements as thorough it did highlight a number of reasons why the Department should consider updating them.[18]

12. The Department has agreed additional funding for CDC of £735 million and made it the centre of its economic development strategy. The Department also has the authority from Parliament to invest a further £4.5 billion in CDC. Given this we questioned the relationship between the Department and CDC. The Department told us that its officials do not have the requisite knowledge to get involved in individual investment decisions. For this reason, the Department has not taken up the option available to it as sole shareholder of appointing a member of the Department to the CDC Board. Neither the Department nor CDC could say whether the Department has a power of veto over investment decisions, and said the issue was hypothetical.[19]

13. CDC is currently in the second phase, which it described as 'very nascent', of its plan to expand its presence in Africa and South Asia, the geographical focus of its current strategy. This expansion presents an opportunity for the Department to work collaboratively with CDC, particularly where it has a country presence or regional expertise. Both the Department and CDC gave us examples (in Kenya and Nepal) of what this might look like in practice.[20] The Department told us that the increased opportunity for the CDC to work with the Department overseas was not intended to be a 'vehicle for civil servants to bring brilliant ideas to CDC to invest in'. Rather the Department might look to create what CDC described as an enabling environment for legislation and sector-relevant agreements. However, the Department has not yet set out the criteria for the interaction between itself and CDC.[21]

16 Q1; Commonwealth Development Corporation Act 2017, section 1
17 Q59
18 C&AG's Report, para 1.7
19 Qq1, 36, 38–42, 48, 54, 67
20 Q99, 102–103
21 Qq63, 102, 103; C&AG's Report, paras 1.13, 3.4

Approving future investments

14. There is a contradiction in the Department's position on overseeing CDC's investments. Despite saying it lacked in-house investment expertise to place a representative on CDC's Board, the Department seemed confident that its investment knowledge was good enough to support the business case for the £735 million recapitalisation of CDC.[22]

15. The Department told us that the emphasis on and investment in CDC was a 'choice made by Ministers' of the day and that an expansion in its use was a policy decision. In response to our concerns that the Department may come under pressure from Ministers to provide further funding to CDC when CDC itself was not requesting additional investment, the Department said that the opportunity for investment in Africa and South Asia was far greater than CDC's capacity to invest. Of greater concern to the Department therefore was the rate at which CDC can sensibly absorb more capital, spend it and use it in a way that does not repeat some of the mistakes of the past.[23]

16. CDC told us that the Board would not take capital from its shareholder if it did not think it could invest it in opportunities with a high development impact and meet its requirements for a financial return. The Department and CDC quoted CDC's figures for new investments of £730 million in 2015 and £1.2 billion in 2016 as evidence for the strength of its investment pipeline. The Department stressed that it would not advance any further funding to CDC without a compelling business case.[24]

17. We asked the Department about the quality assurance arrangements for its business case to support its £735 recapitalisation of CDC. Specifically, we asked why the Department deemed an external analysis of the business case unnecessary and whether it had the skills needed to provide assurance inhouse, given that CDC's portfolio was evolving and expanding. The Department explained that the business case had been subject to its general system of quality assurance to avoid a scenario in which the case put to Ministers for spending large sums of money came solely from the team spending that money. For example, the Department's Chief Economist provided a 'different point of view inside the Department to justify the case'. The Department told us that there was a 'lot of external dialogue'. However, this appeared to focus on what the Department called the 'future direction of CDC' and not specifically on the business case to support an investment of £735 million.[25]

CDC's skills

18. We recognise the steps taken by the Department and CDC in response to this Committee's previous concerns about the size of the CDC's remuneration bill. Average salaries were £90,000 in 2015 compared to £123,000 in 2011. CDC has increased its workforce from 49 in 2011 to 212 in 2016, but has found it difficult to fill mid-level management and senior positions. We asked CDC what it was doing about its recruitment and retention difficulties. CDC told us that it was doing its best within the boundaries of its remuneration framework, set by the Department, and by focusing not just on the money but also on the other non-financial attractions of working for CDC. CDC is

22 Q67
23 Q54, 69, 75
24 Q32, 52, 55, 79
25 Qq66, 91

currently reviewing the remuneration framework, including analysis of the root causes of high attrition levels at middle and senior levels, and a salary benchmarking exercise. On the question of whether a lack of staff overseas was hampering CDC from making new investments, CDC admitted that finding the right people who both have the skills and were aligned to CDC's culture would be a challenge.[26]

26 Qq64, 85, 106; C&AG's Report, paras 3.13, 3.15, 3.16

Formal Minutes

Monday 24 April 2017

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon
Charlie Elphicke
Kwasi Kwarteng
Nigel Mills
Anne Marie Morris
Bridget Phillipson
Karin Smyth

Draft Report (*Department for International Development: investing through CDC*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 18 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Fifty-fourth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[The Committee adjourned.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 8 February 2017

Question number

Sir Mark Lowcock KCB, Permanent Secretary, **Rachel Turner**, Interim Director General for Economic Development, Department for International Development, **Diana Noble**, Chief Executive, and **Graham Wrigley**, Chair, CDC Q1–116

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

CDC numbers are generated by the evidence processing system and so may not be complete.

1 Department for International Development (CDC0004)

2 Global Justice Now (CDC0002)

List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72 (Cm 9351)
Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
Twelfth Report	Discharging older people from acute hospitals	HC 76 (Cm 9351)
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486 (Cm 9389)
Fifteenth Report	BBC World Service	HC 298 (Cm 9389)
Sixteenth Report	Improving access to mental health services	HC 80 (Cm 9389)
Seventeenth Report	Transforming rehabilitation	HC 484 (Cm 9389)
Eighteenth Report	Better Regulation	HC 487 (Cm 9389)

Nineteenth Report	The Government Balance Sheet	HC 485 (Cm 9389)
Twentieth Report	Shared service centres	HC 297 (Cm 9389)
Twenty-first Report	Departments' oversight of arm's-length bodies	HC 488 (Cm 9389)
Twenty-second Report	Progress with the disposal of public land for new homes	HC 634 (Cm 9413)
Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489 (Cm 9413)
Twenty-fourth Report	The sale of former Northern Rock assets	HC 632 (Cm 9413)
Twenty-fifth Report	UnitingCare Partnership contract	HC 633 (Cm 9413)
Twenty-sixth Report	Financial sustainability of local authorities	HC 708 (Cm 9429)
Twenty-seventh Report	Managing government spending and performance	HC 710 (Cm 9429)
Twenty-eighth Report	The apprenticeships programme	HC 709 (Cm 9413)
Twenty-ninth Report	HM Revenue & Customs performance in 2015–16	HC 712 (Cm 9429)
Thirtieth Report	St Helena Airport	HC 767 (Cm 9429)
Thirty-first Report	Child protection	HC 713 (Cm 9429)
Thirty-second Report	Devolution in England: governance, financial accountability and following the taxpayer pound	HC 866 (Cm 9429)
Thirty-third Report	Troubled families: progress review	HC 711 (Cm 9429)
Thirty-fourth Report	The Syrian Vulnerable Persons Resettlement programme	HC 768 (Cm 9429)
Thirty-fifth Report	Upgrading emergency service communications	HC 770 (Cm 9433)
Thirty-sixth Report	Collecting tax from high net worth individuals	HC 774 (Cm 9433)
Thirty-seventh Report	NHS treatment for overseas patients	HC 771 (Cm 9433)
Thirty-eighth Report	Protecting information across government	HC 769 (Cm 9433)
Thirty-ninth Report	Consumer-funded energy policies	HC 773 (Cm 9433)
Fortieth Report	Progress on the Common Agricultural Policy Delivery Programme	HC 766 (Cm 9433)

Forty-first Report	Excess Votes 2015–16	HC 954 (Cm 9433)
Forty-second Report	Benefit sanctions	HC 775
Forty-third Report	Financial sustainability of the NHS	HC 887
Forty-fourth Report	Modernising the Great Western Railway	HC 776
Forty-fifth Report	Delivering Restoration and Renewal	HC 1005
Forty-sixth Report	National Citizen Service	HC 955
Forty-seventh Report	Delivering the defence estate	HC 888
Forty-eighth Report	The Crown Commercial Service	HC 889
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HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: CDC, HC 956

Wednesday 8 February 2017

Ordered by the House of Commons to be published on 8 February 2017.

Watch the meeting

Members present: Meg Hillier (Chair); Mr Richard Bacon; Philip Boswell; Chris Evans; Kevin Foster; Kwasi Kwarteng; Nigel Mills; Anne Marie Morris; John Pugh; Mrs Anne-Marie Trevelyan.

John Thorpe, Executive Leader, National Audit Office, Adrian Jenner, Director of Parliamentary Relations, NAO, Tom McDonald, Director, NAO, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Questions 1-116

Witnesses

I: Sir Mark Lowcock, Permanent Secretary, Department for International Development, Rachel Turner, Interim Director General for Economic Development, DFID, Diana Noble, Chief Executive, CDC, and Graham Wrigley, Chair, CDC.

Written evidence from witnesses:

Reports by the Comptroller and Auditor General

Department for International Development: investing through CDC (HC 784)

Examination of witnesses

Witnesses: Sir Mark Lowcock, Rachel Turner, Diana Noble and Graham Wrigley.

Q1 **Chair:** Welcome to the Public Accounts Committee. We are here to look at the CDC—the Commonwealth Development Corporation—a body set up in 1948 originally as the Colonial Development Corporation to channel money into investment in developing countries to help to promote economic growth and job creation.

It is going through an interesting change. There is a Bill going through the House right now that is going to change the structure but particularly focus on increasing investment in line with the economic strategy of the Department for International Development, so that the investment limit will go up from the current £1.5 billion to £6 billion. That would enable the House, through secondary legislation, to increase that to £12 billion.

So, this is an interesting time of change. The NAO Report goes through that with some very interesting graphs about the expansion of staff teams and the cost of staff going up partly as a result of that. That is a quadrupling of taxpayers' money to be invested in overseas development aid in, not an unusual vehicle, but a hybrid vehicle because it gets direct taxpayers' money but operates in private sector terms. That is a brief summary of how it works.

I want to welcome our witnesses and then ask Sir Mark Lowcock some questions about St Helena airport before we kick into the main session. Our first witness is Rachel Turner, the interim director general for economic development at the Department for International Development. Welcome. I believe this your first time in front of the Committee. Is it?

Rachel Turner: Yes.

Q2 **Chair:** Welcome. We are a friendly bunch, most of the time—if you answer our questions, anyway. Sir Mark Lowcock is the permanent secretary at DFID. Diana Noble is the chief executive of CDC, although not for much longer. Is that right?

Diana Noble: A few more months before my successor is in place.

Q3 **Chair:** Do you know who your successor is yet?

Graham Wrigley: We can talk about that later. We are in the middle of the selection process.

Q4 **Chair:** Graham Wrigley is the chair of the CDC. Our hashtag for anyone following on social media is #CDC. Before we start on all of that, Sir Mark, I want to ask you about St Helena. I understand that yesterday was a key date for some tenders coming in to provide aircraft to the airport. Can you update us on progress on whether flights will actually be able to land at St Helena airport?

Sir Mark Lowcock: Yes. There was a closing date for submission of tenders. We have had a substantial number of responses. My commercial advisers tell me that I should not tell you the precise number because it is an ongoing commercial process. It remains the Government's plan to move through the tender process and start an air service to St Helena later in the year, in the way that we discussed last time I was here.

Q5 **Chair:** Are any of these aircraft large or are they all the smaller aircraft that were managing to land successfully?

Sir Mark Lowcock: There are some aircraft that are in the category that I ran through when I was here with Richard Montgomery last time, yes.

Chair: I remember Richard Bacon being much more knowledgeable about size and type of aircraft. We will not revisit that in this session, but thank you for that update.

Q6 **Mr Bacon:** I have a couple of questions. Full disclosure: I met some people from St Helena yesterday while they were in London. They might have met you as well. I am quite concerned because we have seen all this money go in and we have not yet got the right solution for the airport. I hope that will happen.

These are really questions for CDC, and obviously I don't expect you to sign your name in blood to anything right now. Your mission is to secure future sustainability and prosperity for some of the poorest countries in sub-Saharan Africa and Asia. St Helena is chronically economically under-developed and is in aspic where it cannot really change without the airport and without investment confidence. It has got hardly any hotel beds. The Bank of St Helena is capitalised at £5 million.

It is precisely the sort of thing one might think where a multilateral financial institution like the EBRD or the CDC might come in over a long period of time, perhaps with partners, to create a development corporation that could transform it, particularly if the airport solution comes up. That would create the right conditions for a much more sustainable long-term tourist industry, with perhaps 15,000 to 20,000 visitors. There is obviously a huge interest in Napoleona with a clear niche market, which would be sustainable over the long term. Is that the sort of thing that CDC would seriously look at?

Diana Noble: You describe precisely what CDC does, but the geographies that we invest in are decided by our shareholder and we invest at the moment only in Africa and South Asia, which is where 80% of the world's poor live.

Q7 **Mr Bacon:** So it would be a question of the shareholder changing its mind, Sir Mark. You get my point.

Sir Mark Lowcock: I completely get your point, Mr Bacon. You will be aware that the Caribbean Development Bank, with a bit of help from us, is investing in some other overseas territories in the Caribbean. I need to check which of the development banks have a mandate for exactly where St Helena is. I will take that away and have a look at it. In respect of CDC, you will know that the Secretary of State is planning to agree with the board shortly the new strategy for CDC, which does touch on the issue of what the right geographical areas are.

Q8 **Mr Bacon:** It would be an extraordinary situation for these British overseas territories, some of which are very poor indeed and some of which have had huge governance problems. You will be aware of the Solomon Islands and Pitcairn Islands. When I was first elected as an MP I was invited to the Solomon Islands but it was cancelled because it was too dangerous. It would be odd if these territories, which have an historical association with the UK over centuries, were excluded when other places were not, even if they were roughly in the right geographical area. Would that not be strange?

Sir Mark Lowcock: As the chief executive has said, it is a matter for the investment policy. Ministers are reviewing the investment policy at the moment, so I will take away the points and consult the Secretary of State on them.

Chair: That is an open invitation for you to lobby the Secretary of State.

Mr Bacon: She gets lobbied quite a lot.

Chair: We are now moving into our main session on CDC—particularly in the light of the Bill that is going through Parliament. I will pass over straight away to Kwasi Kwarteng.

Q9 **Kwasi Kwarteng:** Thank you for being here. There are obviously a number of questions I want to ask relating to your strategy. First, to Sir Mark, do you think there has been a big benefit in moving from your fund of funds strategy to more direct investments?

Sir Mark Lowcock: Probably the company would want to comment on that as well, but the then Secretary of State in 2012 was very keen to do that in order to get CDC back in the business of being able to invest directly in companies where the company thought there was a good prospect of creating jobs, adding to the tax base and making a development impact. It is early days, in terms of the proven results, but the experience so far has been very positive. Yes, we think it is a good idea for CDC to have in its armoury both the fund of funds vehicle and the direct investments, equity and debt.

Diana Noble: We are really happy with our mandate. We think it gives us the full range of tools we need to achieve our mission to create jobs, especially in the poorest places. There are some great things that investing through funds can achieve. You're effectively creating a layer of investing infrastructure that will last for decades to come, and also you are crowding in the private sector alongside the CDC. However, direct investing can be much more precise in targeting investments that alleviate poverty.

Q10 **Kwasi Kwarteng:** My principal worry about this is that you are moving from one set of investments—I read that you are an investment professional, so you understand that being a fund of funds manager is a very different thing from being a direct investor: you need a very different skillset. How are you doing in expanding that particular skillset?

Chair: May I refer colleagues to figure 16 on page 36, which gives a useful picture?

Diana Noble: I thought the NAO Report covered it rather well, actually. We have done a lot of work over the last five years to establish effectively new teams; there is a nice figure in the Report that shows all of the boxes of the teams in the colours. We have put in place product teams—a direct equity team and a debt team—and sector teams, because you really need to understand the sectors in which you are investing, and we are now also beginning to expand our geographic reach to supplement that, so that we can be really close to our portfolio companies. You are absolutely right that it is a different skill.

Q11 **Kwasi Kwarteng:** I was looking at the compound annualised growth rate—the CAGR—which I asked for specifically, and I notice that it has fallen off. If you take the last four or five years, it is about 7.5%, whereas it is 10% over the 15-year period. Is that related to the fact that you are shifting your focus?

Diana Noble: Do you mean the financial return is coming down?

Kwasi Kwarteng: Yes.

Diana Noble: Yes, it is. That is not so much because we are investing directly; it is because we have deliberately responded to the Committee's recommendations, and also those of the International Development Committee in 2010, to push ourselves to make harder investments. You will have seen the development impact grid in the NAO Report that targets and pushes our teams to make investments in the harder countries. You will have seen that our portfolio is now much more weighted to the harder parts. We think we are really pushing our mission, and over time we think that will continue to bring the financial return up.

Q12 **Kwasi Kwarteng:** Okay, but if, as you accept, the financial return is slightly decreasing—that is what the numbers suggest—my issue is how you measure the development impact. It seems, looking at the NAO Report and other things, that that is quite a difficult thing for you to get a handle on, and you have used different criteria.

Diana Noble: We think we have extraordinary impact, and we are demonstrating that as well. We want to try to maximise the number of jobs that are created, and we can now show that, over the last two years, our portfolio companies created over 1 million jobs in each of those two years. We want to increase taxes paid, and we can show that our portfolio companies paid over $7 billion in the last three years into local exchequers. We want to power Africa, and we can show that our power companies generated 56,000 gigawatt-hours in the last year—we measured it—which is enough to support 28 million people. We also want to bring the private sector and other investors in alongside us. We can show that last year $700 million extra capital came in alongside our $300 million that we committed to funds.

Q13 **Kwasi Kwarteng:** Forgive me, these are fluent answers but look at figure 15 on page 34 of the Report: the picture that you lucidly describe is not really captured in that figure because you have discontinued a number of criteria for some reason—I am not sure why you have done that. It looks to me like you have been moving the goalposts slightly, in the sense that some of the criteria are no longer used—or have I got the wrong impression?

Diana Noble: It is actually a different picture. The NAO Report clearly shows how much we have done and how much has changed since 2011 in where we invest, how we invest and what we invest in, as well in a lot of our processes and policies. Every time we enhance what we do, we add something new to the way we report. The picture I want to paint is one of constant improvement, not one of wanting to move any goalposts.

Q14 **Kwasi Kwarteng:** You understand that if you alter the measure, it is difficult for Committees such as this one to track progress.

Diana Noble: Of course, but the main metrics that I described up front—jobs created, tax paid, capital crowded in, power generated—those are not measures that are changing. We will report consistently on them year on year.

Q15 **Chair:** Can I ask about the jobs created? You talk about over 1 million in each of the years in question by your portfolio of companies, but the figure for direct jobs is about 25,000, isn't it?

Diana Noble: Yes.

Q16 **Chair:** It just seems a big jump from 25,000 to 1 million. Can you talk us through that? What measure have you set in place to make sure you are not double counting?

Diana Noble: Of course. It follows accepted economic advice. When you look at the job effect of investing, it falls into three categories: direct jobs, obviously—we all understand that—then indirect jobs, which are generated through supply chains, then induced jobs, which result from bringing more power or finance to a country or region that does not have enough.

You are right to say that, using the methodology that we put in place a couple of years ago, it is clear that the indirect jobs are much greater and the direct jobs much smaller as a proportion of the whole, but actually this is intuitive. Let me give an example of an investment we made bringing hydropower to eastern Congo. Previously off-grid, this is the first time the region has had that. We think that will generate 250 direct jobs, but it is part of a plan to bring 40,000 new jobs to the region, so the indirect effect will be greater.

Q17 **Chair:** Mr Kwarteng can follow up on this, but how do you measure that you are not double counting? You are creating the energy, which could potentially create 40,000 jobs, but other things will contribute to those 40,000 jobs which you may also be investing in. How are you avoiding that problem?

Diana Noble: The design of the methodology was not ours. We went out and got the best advisers we could find to put it together and we are peer reviewing that methodology at the moment. Like you, we want to be as precise, accurate and honest about the impact we have.

Q18 **Kwasi Kwarteng:** About this development, we have had slightly more problems on this than your answers may suggest. Sir Mark, in 2008, this Committee had an issue, did it not, with your ability to—

Sir Mark Lowcock: Yes, there was a number of things in 2008. First, I remember Mr Bacon asking in 2008 why the tax paid by CDC companies not higher—it was £250 million—

Q19 **Kwasi Kwarteng:** I am asking about the development impact.

Sir Mark Lowcock: What I am trying to illustrate is that there are a number of dimensions of development impact. The first is whether the businesses are generating revenues and paying tax going back into the Exchequer. A big change in development impact has been that eightfold increase in the businesses paying tax. Secondly, it is absolutely the case that in 2008 we were not tracking jobs created. Thirdly, it is absolutely the case, as the Report pointed out, that in 2008 we were not identifying at the moment the company was deciding whether or not to make an investment what the projected development impact would be. Those three things are enhancements. The Report recommends we do more to enhance knowledge of development impact—more evaluation work and so on—and we agree with that; we want to do that. There has been a lot of progress since 2008.

Q20 **Kwasi Kwarteng:** Okay. May I ask you a specific question about this because you have spoken very generally? My understanding is that you had £5 million of the £735 million that you got in 2014-15 allocated specifically to hire a senior evaluation officer, or someone who would look at this issue of development impact. Where have you got to in terms of hiring that person?

Sir Mark Lowcock: The £5 million was not to hire the individual, just to be clear. We intended to do two things. First, we intended to hire an individual who had expertise in this and would be able to manage a 15-year study, checking in periodically all the way along, to provide the aggregate picture of development impact.

I am sorry to have to report to you, as the Report says, that we have not been able to find the person with the right skills to do that. What we have done is tender a contract to provide the analysis in the study over that 15-year period. That is not the only thing that we have done. The company should speak to a much bigger programme of work that they have commissioned of an evaluative sort, so that we can tell a stronger story as we go along on the development investment.

Q21 **Kwasi Kwarteng:** So, are you still looking for someone or have you abandoned that?

Sir Mark Lowcock: We will have another look, but I did not want to delay the whole evaluative process because we were delaying finding the senior person. We can let the contract and we will try to find someone. We have got competent people; we just wanted a stronger team.

Q22 **Kwasi Kwarteng:** How long did you spend trying to find this person?

Sir Mark Lowcock: Rachel might be able to help, but it was about a year or so.

Rachel Turner: It was about a year, yes.

Q23 **Mr Bacon:** Did you advertise?

Sir Mark Lowcock: We did, yes.

Q24 **Kwasi Kwarteng:** But you couldn't find anyone, okay. The other thing I wanted to ask about was the quality of jobs. Clearly, that is a big issue that you pride yourselves on, in terms of the job creation. How do you measure the quality of the jobs that you create?

Diana Noble: The NAO Report recognises that we have made a lot of progress in this area. We agree that it is not enough just to care about the number of jobs that are created; we should also care about the quality of those jobs, or decent work, if you like.

These are the things that we have done. We have a code of responsible investing and that has standards in it that follow the International Labour Organisation. It is very clear that we have standards that avoid forced or child labour or discrimination. We ensure safe and healthy working environments and that our companies pay the minimum wage.

It is fine to say these are standards; the important thing is whether they are adhered to. We have a great environmental social team that always goes in and does due diligence before we invest, and assesses the compliance. If they aren't compliant, they will put in place an action plan and they oversee real change.

We don't stop there. We also assess how the companies are doing against the action plan and we will step in and help them if they are falling short. We have a traffic light system that goes to the risk committee and our shareholder as well.

Q25 **Kwasi Kwarteng:** It is a compelling story. I am interested in your relationship to the private sector because this is quite a hybrid beast. I am sure in your days at Schroder Ventures, Ms Noble, you would be very happy to receive capital that was essentially underwritten by the taxpayer.

I have looked at your accounts. There is no cost of capital I can see, obviously, yet you are competing at the same time on very favourable terms of financing with the private sector. Is that something that you are happy doing? Do you feel that you are operating in a fair environment with other people who are trying to do it on a commercial basis?

Diana Noble: CDC is a unique and extraordinary organisation. What you describe is actually its strength. It has the mission to go to the very hard places but it uses—and this is the strength of the team that we have hired—commercial skills to apply judgment, to navigate these difficult places.

That is a judgment about which teams we should work with, which management teams we should not work with. What standards should we have in job quality? Is this a company that is going to grow and be sustainable for the long term? These are important judgments that our team make, and those are commercial skills.

Q26 **Kwasi Kwarteng:** But there may be an issue in terms of private investors operating in your space, who feel that they cannot compete. They are being crowded out, effectively.

Diana Noble: This is an important topic. We use the term "additionality", which means we always want to be clear that CDC is bringing something unique to the investments that we make. That can be capital. For example, during the Ebola crisis, we provided much needed liquidity to companies that were running out of working capital to keep essential businesses going. No other investor was investing in Sierra Leone at the time. This was clear financial additionality. Also, we can bring things that really improve the businesses that the private sector would not bring. For example, we have dramatically improved workers' working conditions in a rail freight business in some of the poorest states in India. This is an industry that is notorious for poor working practices.

Or we may change the strategy of the investment that we work with. The report talks about Globaleq, our biggest investment. It is the largest independent power producer in Africa. We made that investment, but let us be clear: commercial capital would have invested in that company. It is an attractive company, but what we have done is completely change the strategy from essentially a commercial strategy where the shareholders take dividends out each year, and we say, "No, we want those dividends and all your focus to go on developing the next generation of power plants across Africa," which is not a fully commercial strategy. So we have changed the board, the management team and the strategy.

Q27 **Kwasi Kwarteng:** Just for my clarification, do you go in as yourselves or do you do joint ventures? Do you have a particular style or approach with respect to joint ventures and partners?

Diana Noble: We are very flexible. We can be very active, as I have described with Globaleq. We are a majority shareholder there. One of the important things that we do is to try and work with the best people. The magic of CDC is when you combine capital with people who share your values and want to do the right thing. One of the most important things that we do is to try and choose those people and back those people.

Q28 **Kwasi Kwarteng:** So you do not see any tension at all between those twin goals. You think this is a model that is completely without any wrinkles.

Diana Noble: Of course it is challenging. The mandate that we have—the whole team that we have had over the last five years completely accept this—is to really push the impact part of our mission and do the hard things that the Committee wants us to do, but to do it in a responsible way that generates returns, crowds in the private sector, and also has a demonstration effect so that future investors will follow us as well. It is a hard mission, and it has challenges and trade-offs in relation to whether we should make an investment and whether it will achieve both aims.

Graham Wrigley: You summarised the 70-year challenge of CDC's balancing development impact and financial return. I often say it is one of perpetual paranoia. Are we getting the right balance? You can think about it on an investment level and at a strategic level. For every investment, the teams and the investment committee have to make a judgment, a triangulation, between the development impact and how we are going to make the world better. As for financial return, how are we going to achieve our financial mandate from the UK taxpayer? Are we going to be additional? We never want to crowd out. We do not crowd out. We have got clear rules and guidelines. And are we managing the UK's money with full business integrity? That applies to every investment. Last year we made over 40 investments.

At a strategic level—we are a very long-term business—we have to judge development impact and financial return. The National Audit Office inquiry eight years ago had a different set of questions, but that is what we try to do. Those are the debates we are having at the moment with the shareholder for the next five years.

Q29 **Kwasi Kwarteng:** I looked at the 2008 Report. Clearly, there were big problems identified there; it's a different picture now. They were running the organisation essentially like a hedge fund, with 30% returns on taxpayers' money one year, and they were being very well paid for it, whereas you have moved on from that.

Graham Wrigley: Although as the NAO Report said, of the returns that we have made, that the UK taxpayer has made, in the last five years, 84% came from that strategy. A lot of great mobilisation was done in that period. The Josh Lerner report from Harvard Business School talked about 345,000 jobs being created.

Q30 **Kwasi Kwarteng:** But remind me what the fall was in '08. This looked like a hedge fund. You have been saying how wonderful it was, but it was down, what, 36% in one year?

Graham Wrigley: It was a volatile market; I'm talking about over the period.

Q31 **Mr Bacon:** Hang on a minute. What was going on was this; I remember, because I was on the Committee at the time. One of your predecessors was being paid, or paid himself, £970,000 and was targeting a bunch of middle-income countries, not the most difficult to help. They were mimicking what was being done by a lot of other private equity providers and hedge funds, which was very nice for them, thank you very much, but it was not clear that Mr and Mrs Taxpayer actually needed to be involved. Sir Mark is nodding. The reason you saw a drop was not because the market was volatile, although of course it was in ’07, ’08 and ’09, but because a strategic choice was made—a good one. I’m not speaking out of turn here; that is an accurate description, isn’t it?

Graham Wrigley: The change has been profound. The new strategy that started in 2012 is a fundamental change. We have now targeted, as it says in figure 4 on page 20 of the Report, sub-Saharan Africa and south Asia—the poorer states. We have 98% of our new investment portfolio—

Mr Bacon: Do you know how close St Helena is to sub-Saharan Africa?

Graham Wrigley: As Mark said earlier. In terms of remuneration, as the NAO Report said, we have fundamentally addressed the concerns of Parliament at that period as well.

Chair: I will just point out, for anyone who is following this, that figure 7 on page 24 of the Report demonstrates the rate of return and the 36% drop in 2008.

Q32 **Anne Marie Morris:** In a sense, there is another objective, which is rather bizarre and perverse. It is, if you like, Sir Mark’s objective, which is to “spend a minimum of”, which is a most bizarre way of looking at this, as against what is clearly the more commercial objective of trying to develop projects that will give you real development improvement in some of these countries as well as a return on the investment made. Presumably, each of the projects has a different development value, so to speak, so Sir Mark, how do you make sure that in your quest to make sure you spend all that money, we are not spending on projects that in the real world, if we did not have that target, we would not spend money on because they do not actually provide good value or a good rate of return for the taxpayers of the country? I am assuming there are some things that have a big impact fairly quickly. You have picked infrastructure targets, I suspect, because they are much better at doing that and the long-term sustainable advantages are clearly demonstrated. But are you going to be pushing now into territories that just do not give you that sort of return, and how will you deal with that?

Sir Mark Lowcock: I think you’re referring to the 0.7% target, which is what the Government has decided—Parliament has put this on the statute book—the taxpayer should spend every year on official development assistance. From that budget, the Government has a choice about how much to capitalise CDC. The legislation that the Chair referred to at the beginning, which I think is going through the House of Lords process tomorrow, gives the Government the authority to invest—with a statutory instrument on the way—up to another £10.5 billion in CDC.

The previous legislation, which I think was passed in 1999 or 2000, capped what the Government could put in at £1.5 billion. The capitalisation of CDC over the last 70 years has been a little bit here and there from the taxpayer. It has grown over time. It has sometimes come down a bit in a bad year, as Mr Bacon observed, but it has grown over time into the current balance sheet.

Given that we had exhausted the ability to capitalise previously permitted by legislation, and assuming that the Bill goes on to the statute book, the choice available to Ministers will be whether to put more capital into CDC. Ministers were absolutely clear during the passage of the Bill through the Commons that they would only do that on the basis of a clear business case, in which it was absolutely transparent what the development impact would be, what the trade-offs would be and whether there was a need for capital or not.

Currently, over the last two years, in 2015, the company made commitments of £735 million, and in 2016, of £1.2 billion—even in those African and south Asian markets that have been traditionally harder. Obviously, the Government would not have tabled a Bill if they did not think there was a good case for more investment at some point in the future. That decision on more investment has not been made yet. It will be subject to a business case, and the quality of the business case will need to be as good as the last one, which the NAO commented on in its Report as being convincing. If there is a convincing business case, Ministers will decide whether they want to invest more or not.

Q33 **Anne Marie Morris:** How do you measure the value? The reason I ask is that you will no doubt say to me that it is about the number of jobs created and some of the other things you have talked about. In a sense, that is easier with an infrastructure project than for some of the things you are likely to be going into if they grant you the money. Are you considering reviewing your whole measurement system, so that it is fit for purpose and comparable against the different types of investment that you make? It seems to me that that is quite important, because the British taxpayer wants to see that this, if you like, philanthropic approach has actually delivered, and you can actually see which of your investments have, if you like, delivered more across all of the different measures.

Diana Noble: You describe almost perfectly what you will see in our next five-year strategy. We want to be relentless about showing more; as I said up front, we show a lot of impact, but there is always more that we can do. You will see in the strategy that we will be much clearer about the individual impact that we want to achieve in each case and in each investment that we make.

You are right that it is different for each investment. Jobs and taxes are obviously a unifying force. That is where we started, because we wanted to be able to show the impact of our whole portfolio, but now we need to drill in a bit more and look at the individual investments that we make, what our expectations are and what we want that investment to do over time—and we need to track it over time to see how we're doing.

Q34 **Anne Marie Morris:** Will you look at that in the context of the, if you like, poverty gap—or poverty need—of the country you decide to invest in? You have presumably picked projects according to some criteria, because you think you can make the most impact, so to speak. Do you then go back to that country, rather than just that project, and see if you have actually improved the overall quality of life there?

Diana Noble: You will have seen the DI grid that we use. That really does it, in a way, in that it grades higher the poorer and harder places to do business, and the places that have the greatest need of our capital. Always when we assess an individual investment, we try to step back and ask whether it is good for the country and for poverty, and does it link us to the sustainable development goals, for which we are obviously all unified in trying to achieve.

Q35 **Anne Marie Morris:** Measurement; you are acutely aware of the answers you have given of the need to measure. I know we do not yet have the individual in place—if we ever will—to look at this in a longer term, but pending that individual being in place, it seems to me that there is a need to ensure that you take some action to make sure that what you think is happening is happening, and is delivering what you need. Absent this fix that we hope you will find, it would be helpful if we could have some spotlight on how you go about it.

One specific issue I would quite like to address is corruption. You say that you look at the quality of the directors to see that they are not corrupt, which is clearly the right thing to do, but in many of those countries it is not just about whether the director is or is not corrupt, but that there are business processes and business models that are simply not free of corruption. How do you deal with that? Clearly, one of the things that we face as politicians is a hue and cry from taxpayers, who say, "Why are we spending DFID money on this or that? The country's wealthy," or "This is a project that could have been funded by the private sector."

Diana Noble: We take all possible steps to try to ensure that we and the companies that we invest in avoid fraud and corruption, and this requires a number of different work streams, effectively. We make inordinate efforts to ensure that we work with the right people. That is really at the heart of it. But we also try to avoid sectors that have particular propensity for corruption—ones with high levels of Government tendering and things like that. We have a very strong business integrity team, which, as you will have seen from the Report, we have built from scratch since 2011. That team is as large as the IFC's—that is the private sector arm of the World Bank. The IFC has a portfolio 15 times the size of ours, and our team is the same size as theirs. These are real professionals. And we obviously have lots of policies here, but again, this is not just about writing things on pieces of paper. As the NAO Report points out, 19% of our pipeline was turned down because we did not meet the standards of integrity—either the people we were working with or the standards we found in the companies—or because of environmental and social issues. So, we are really careful about where we invest.

Q36 **Kwasi Kwarteng:** One of the things that is a bit of a riddle to me is the nature of the relationship that you have with DFID, in terms of the oversight. These are obviously huge amounts of money. The Bill that is going through Parliament will potentially give you even more money. I just want to know a bit more about the relationship between DFID, which is ultimately responsible for the taxpayer's money, and the very capable investment professionals.

Sir Mark Lowcock: As the Report says, there has been some revamping of the governance arrangements. The Report says we have a thorough set of arrangements. The basic construct is that the shareholder appoints the chair and sets the strategy and the investment policy, and then it is a matter for the chair to assemble a board, on which he consults us as new vacancies arise, and hire and supervise the executive to execute the policy. The construct is that there is a separation. As you will know, some of the low points in CDC's history over the 70 years have been ones where civil servants—often well meaning—came up with bright ideas about things that the company could do and poor decisions all too often were made as a result. So, there is a deliberate separation.

The Report flags the point that it is important that everyone across Government understands that separation. We have just sent guidance out to the whole of the HMG network overseas to explain that it is up to CDC, who are accountable through the board to the shareholder and the Secretary of State, to decide what investments to make, and it is not up to civil servants in my Department or another Department.

Q37 **Kwasi Kwarteng:** Clearly, we do not want to go down to the Tanganyika groundnut scheme and all that kind of stuff—we know about that—but are there any formal structures whereby DFID communicates with CDC? And is it an informal thing, or is it—

Sir Mark Lowcock: Maybe Rachel could speak to those, because there is a set of them, which are in the Report.

Rachel Turner: As Mark said, I have a team of six, who help Mark steward our relationship with the company. We have a formal process to sit down with CDC four times a year to go through a series of indicators about the portfolio, the processes that Diana was talking about in terms of due diligence and the environmental and social plans, and the status of the underlying investments in the company. It is a very detailed set of management information that we sit down and drill through. We feel that we are a very active and engaged shareholder. We are well informed, we are able to debate and we are able to ask questions. That is at the core of our ongoing relationship.

Q38 **Kwasi Kwarteng:** Do you have a power of veto at all, for schemes that you feel are perhaps unethical or where you feel that you do not wish taxpayers' money to be bound up in that way?

Sir Mark Lowcock: What we have is a policy, and the deal is that the company is accountable for living within the policy. In extremely rare circumstances—one case is mentioned in the Report—a company brought an investment to us and asked us whether we had a point of view, but that was just whether we had a point of view; it was not to get a decision from us.

Q39 **Chair:** But your point of view in that case was favourable. Had your point of view been, "We are not so happy about this," what would happen? I wonder what Diana Noble has to say.

Sir Mark Lowcock: We haven't had a case like that, so I don't know what would happen. The chair could maybe say what he would do.

Q40 **Chair:** Graham Wrigley, what would have happened if DFID had said, "We are not sure about that," or, "No"?

Graham Wrigley: The way in which the board and I feel accountable is to deliver value for our shareholder, and that means development impact, a steady increase in the balance sheet of CDC so that it is an evergreen facility that the UK Government can reuse, managing reputation and all the issues that are laid out clearly in the code of responsible investment and the investment policy. Through all our formal structures that Rachel has just talked about, and supplemented through informal conversations, we explicitly said, "Make sure we try. Don't put ourselves in that position." We have not done that in the last—

Q41 **Chair:** Had you been in that position, what would you have done as a board? It is an informal relationship, but it is an important one, because in the end the money comes from DFID.

Graham Wrigley: We would not do something that we felt was not going to achieve those goals. In terms of the investment decision making itself—

Q42 **Chair:** I just need to push you. You say that you would not do something that would not achieve those goals, but it could be that something would achieve those goals, but something that DFID did not like.

Graham Wrigley: We are talking about hypothetical things here. If we are talking about something that was so obviously wrong, it would not get through our processes. Coming up with an investment decision, as I said earlier, is a triangulation of those four different things. That is a judgment call that you have to make at the end of the day.

Q43 **Kwasi Kwarteng:** I have two very simple questions. First, when things go well, that is fine—you have been very successful—but if things go horribly wrong, as they did in 2008, and there is a big investment, presumably you are ultimately responsible for that.

Graham Wrigley: I and the board are responsible for that, yes.

Q44 **Kwasi Kwarteng:** You would take full responsibility. It has got nothing to do with DFID.

Graham Wrigley: No. As Mark said, the strategy and the objectives are set by the shareholder, and our job as a board is to execute and deliver that strategy.

Q45 **Kwasi Kwarteng:** But in an ordinary case, the shareholder would be able to get rid of you at some point.

Graham Wrigley: And the shareholder can get rid of me. I went through a review for my reappointment last year. There was a thorough review. I get reviewed by the senior independent director every year. The shareholder comments on my performance. As Mark and Rachel said, we feel accountable to our shareholder.

Q46 **Kwasi Kwarteng:** My last question is—Diana answered it, but I want to hear what Sir Mark and Graham have to say about it—what if a member of the public said to you, "I don't get this. Why not bring it all in house, and then we have no problem with the accountability? Why not spin it off? I can't understand"? That is what I am hypothetically suggesting.

Sir Mark Lowcock: I understand. It is an absolutely key question. Why not bring it in house? Civil servants in my Department do not have the skills to run investments. We are an excellent Department in the grant-giving thing we do.

Q47 **Kwasi Kwarteng:** You are good at signing the cheques, as my constituents might say.

Sir Mark Lowcock: We are good at providing grants, which involves the supervision, the implementation, the results and all that, but it does not involve the management of the balance sheet. That is why we do not bring it in house, and the Report does a good job of justifying that.

Why not sell it off? That is another very good question. The answer to that is that the public policy rationale for the taxpayer owning this operation is because it is a very good way of promoting development in Africa and south Asia, which find it hard at the moment to find investment. It is about the 1 million jobs a year, the $2.5 billion or $3 billion in tax and the demonstration of a new development path. The goal obviously is that at some point, just as happened in east Asia and Latin America, the markets we are in are open and attractive to purer private investment. There is no longer then a need for CDC. That is of course the goal.

Q48 **Kwasi Kwarteng:** But let's put this on the record: CDC isn't actually a very big part of your overall spend as a Department, is it? I mean it has a £4 billion balance sheet—that is a balance sheet number—whereas you're spending £12 billion or £13 billion a year.

Sir Mark Lowcock: £10 billion. Well, of course, for 25 years up to the year before last, there was no investment in CDC from the Department's budget. Over the last two years, as Ms Morris was saying, we put £735 million in and we are considering putting more money in. That is because we think that CDC, as the Secretary of State set out in the economic development strategy she published last week, is the key vehicle we have in the British Government to promote private investment in the poorest and most fragile countries, which is the best way we think we have of creating good-quality jobs and contributing to the tax base and so on. So that is the rationale.

Chair: Thank you. Before we move on to Phil Boswell, I wanted to welcome members of the Uganda Bureau of Statistics, who are attending the session today. You are very welcome. You perhaps did not realise, Sir Mark, that you were helping aid the Uganda Bureau of Statistics in its work.

Q49 **Philip Boswell:** Following on from Mr Kwarteng's line of questioning, DFID's formal position is not to involve itself in CDC's investment position. As such, it does not receive information in advance of CDC's decisions to invest. However, the Department's governance arrangements "encourage CDC to share information in certain circumstances." So under what circumstances does DFID encourage the CDC to share information about investment decisions?

Sir Mark Lowcock: It is really in the example that is covered in the Report, Mr Boswell. It was a very big investment for CDC to take its stake in Globaleq, which is the biggest—I think I am right in saying this—greenfield power generating business in Africa, focused on the low-carbon technologies, gas and renewables. Because it was a big investment, the chair thought that the right thing to do was to check whether the Department had a point of view about it. It is the only case that I am aware of—I think I would know if there was another case—since 2012 where the chair wanted to do that. We are not going to set criteria that tell the chair when to make what judgment. We have appointed him because we trust him to know the cases when he wants to refer things to us.

Q50 **Philip Boswell:** Okay. From the CDC's side, Ms Noble, DFID does not receive information on all business integrity issues that CDC encounters in its investments. So why does CDC report only on some business integrity issues it encounters in its investments to DFID, rather than on all?

Diana Noble: We do share all the serious—

Philip Boswell: All the serious ones, so you deem them to be serious and then you would. Okay.

Diana Noble: Yes, that's right. But there are sometimes details of those that we have to keep confidential, for example because the whistleblower policy protects the identity of the whistleblower.

Q51 **Philip Boswell:** Okay, and how does the CDC determine which business integrity issues are reported to DFID? That is really what you have just said: you deem it serious. So what are the criteria you use? Is there a process? Who makes the decision? Is it entirely down to yourselves?

Diana Noble: We have a head of business integrity, who is a very experienced crime prevention officer and also experienced in the private sector too. He applies his judgment, but he does so according to some reasonably clear principles. The areas that we really need to share with

DFID are ones where either CDC ourselves or the companies that we have invested in or the fund managers that we have supported have perpetrated some level of crime, or where a crime has been alleged, I should say, against CDC. That is really where we focus.

Philip Boswell: We are going to move on, I think, to the implications of increased funding.

Chair: I will bring in Mr Bacon, then.

Q52 **Mr Bacon:** Can I start with the £735 million? Can you just reiterate or summarise the rationale for it being £735 million? Why not a different number? It was only July 2015; it wasn't that long ago.

Sir Mark Lowcock: Of course, that was the limit because that was the limit of the statutory provision at that time; it could not have been more than that. Why was it as much as that? Basically, because the business case demonstrated convincingly, as the Report says, that there were lots of uses for more capital than CDC had. That has been corroborated because in the last two years, as I said earlier, there was £730 million of new investments in 2015 and £1.2 billion in 2016. What has happened is that even in the toughest markets, in Africa and south Asia, the business climate has got a bit better so there are more investible propositions. CDC is by far the most concentrated of any organisation of its sort in Africa—it does 40% of its business in Africa, compared to 10% for the International Finance Corporation, but it is still smaller than the IFC in Africa. There is a lot of need for capital, which helped to generate the 735 number.

Q53 **Mr Bacon:** On that point—this is probably for you Diana Noble—I should declare an interest. Years ago I used to act for a big private equity investor, so I was always putting out statements to the press about when they had bought or sold crystallised investments. There came a point when there was plenty of money out there—I guess this was probably the late '90s, and I know it goes in cycles—and not enough good investment propositions, so you had more and more money chasing those good investment propositions. That is a universal; it is a phenomenon of investment and not particular to Asia, Africa or a particular category. I attended a dinner recently where some Kenyan investment professionals were talking about the growing tendency to create, successfully, Africa-to-Africa funds: funds generated in Africa, for Africa. That being the case, have you noticed that you are increasingly competing for those good investments? If so, given your remit, how do you calibrate, "No, no. That one's too good for us?" How do you balance all of that?

Diana Noble: I go back to the additionality guidelines that I talked about earlier. For every investment we make, we have to be clear that we are bringing something unique that would not happen without CDC—it may be capital, but it may be know-how or expertise that really improves the business. It is fair to say that there is more capital coming into Africa and south Asia. That is obviously a good thing and what we want, but CDC's mission is to try to do the harder things—and the need is there.

Let us look at the private sector environment in some of these countries. In the UK, we have 64 million people and 15,000 companies with revenues more than $50 million. In Ethiopia, there are 17. In Bihar, there are three. The existing investible opportunities that a lot of people are competing over may be small, but it needs the hard work by teams such as CDC to grow smaller businesses. The other thing we do a lot of is invest in good-quality operators, partner with them and take them to these harder places.

Chair: I'll bring in Kwasi.

Q54 **Kwasi Kwarteng:** This is a sort of tag team—a double act—and I am following on from what he is saying quite closely. My understanding is that for 20 years—from 1995 to 2015—there was not a penny extra provided by the taxpayer. I look at your balance sheet and you have got something like £2.7 billion of retained earnings. You have lots and lots of retained earnings that you have put back into the business. It should be noted that the taxpayer does not get a penny back; it is not as though the British Exchequer gets a penny back. Why now are you ramping up the potential amount of capital? I know you are saying that there is all this investment, but why was not a penny put in for 20 years and now, in 2015 and 2017, all of a sudden we are talking about £6 billion—a cap? That seems to be a huge step up.

Chair: It is to do with your economic strategy, but perhaps you could explain that a bit, Sir Mark.

Sir Mark Lowcock: To start, the main focus of the economic development strategy that the Secretary of State published last week is to try to make links to global markets to harness more trade opportunities and hence reduce poverty for Africa and south Asia, which is where our focus is. It is to focus on the job-creating sectors—construction, power, health and education and the financial sector—and we see CDC as the principle mechanism for doing that. So, to answer Mr Kwarteng's question, why now? It is a very fair question—it adds up to the choice made by Ministers of the day over the last period.

Q55 **Kwasi Kwarteng:** But you understand that "why now?" is the critical question, when for 20 years—that is a long time—not a penny was put in. The company was doing well: you were getting good returns and the growth rate was good.

Sir Mark Lowcock: I think the thing that has changed is that, as you know, a lot of the returns in the 1990s and I suppose up to halfway through the last decade were in east Asia, where the markets were booming. Most of Africa over that period was not really investible. Because the British development programme has always had a focus on Africa and south Asia, I guess it would have been a bit curious to have invested in CDC so that it could have invested more in China in that time when the markets were booming there.

I think now that these markets are more viable than they were previously, there are more investible propositions, and it is also absolutely the case that my Secretary of State and her two predecessors believe strongly that the private sector is the engine of development and that most jobs will have to come from the private sector. The private sector will have to provide the tax base. So it is that combination of things, I would say. The chairman invests in these markets; maybe he should come in.

Graham Wrigley: I think it is a great question, and I can understand it from all the conversations that we have had with stakeholders in the last two months about the Act of Parliament and why now and why this amount of money? The reality is that this plan to recapitalise CDC has been under development and discussion between the company and the shareholders since 2012, when the new, reforming strategy came in to say, "Is there a way in which CDC and the UK taxpayer could respond to the need for long-term patient capital," doing exactly the sort of things Diana was talking about? In the projections made back in 2012, there was a variety of scenarios. The upside and the base-case ones showed a need for more capital being required. That led to conversations in 2014 with the shareholder for the recapitalisation that Mark just talked about.

When we structured that investment—the recapitalisation—aware of exactly the danger Mr Bacon said about having force of pressure on capital, we structured it so that it could be drawn down in the form of promissory notes over the next four years, which is what we did. But when we did those projections in 2015, we showed that if things carried on going we would need more capital. That is basically what has happened. Last year we committed just under £1.2 billion. So a large amount of the potential need, subject to a business case and the shareholder agreeing, is to allow CDC to increase its investment rate from what was about £200 million a year to what it is: £700 million average for the last three years and £1.2 billion last year. That would permit CDC to be an evergreen, revolving, slowly growing balance sheet owned by the UK taxpayer but to commit money in the markets we are focusing on for the next five years.

Q56 **Kwasi Kwarteng:** But my understanding is that you have not even invested all of the £735 million, and that you have got some sort of promissory note for £450 million. So before you have invested that you are asking for—

Sir Mark Lowcock: It is a slightly technical point, but what we have done is deposit two promissory notes to a value of £735 million. What that means is that the company knows that it has the backing for its investments. What we did not want to do is hand over the banknotes, because that would have been handing over the cash before the company was going to be using it. So the taxpayer does not have to hand over the banknotes until the cash needs to be drawn down. That is basically what is going on.

Q57 **Kwasi Kwarteng:** Okay. But you will appreciate that capital is a very scarce commodity. You have got £735 million there, and only £260 million of it has been invested.

Sir Mark Lowcock: Well, no. The note is for £735 million.

Kwasi Kwarteng: You see the drift of what I am saying.

Graham Wrigley: I totally see the drift. This was a specific recommendation by the NAO in 2008 to make sure that we manage our cash balances appropriately. At the same time, the company also has to be able to honour the commitments it has made to businesses. At the moment we have £2 billion of ongoing commitments. The NAO Report shows how we came up with the liquidity policy, working with the shareholder and the Treasury to do this. At the end of last year, we had £223 million of cash, which is 5% of our portfolio. The goal of the promissory note is to do exactly as you said: to come up with an efficient use of taxpayers' money at the same time as allowing us to make commitments on the scale that we are making.

Q58 **Kwasi Kwarteng:** While you are expanding your balance sheet, as well.

Graham Wrigley: While we are expanding our balance sheet, as well, yes.

Q59 **Mr Bacon:** That brings me to my next point, Sir Mark. The fear I have is the risk of saturating CDC with cash. We have seen that in many places, such as in the Office of the Third Sector and in the regional growth fund. How are you going to manage that risk, so that it does not manifest itself in some of the ugly and unfortunate ways that we have seen?

Sir Mark Lowcock: That is the key question for the business case. The company will need to explain to us, with the £1.2 billion going to continue into the future, why these are high-quality investments that the taxpayer can be confident will sustain a decent return record. I go every few months or so to have a strategic discussion with the board.

Q60 **Mr Bacon:** I thought you were going to say "poke around", but strategic discussion sounds a lot better.

Sir Mark Lowcock: It is not anything that the chairman of the board would mind my saying. That was exactly the point I made to them; I said, "You are going to need to persuade us that the quality of the investment pipeline is such that it justifies any new capitalisation, never mind what the volume is." They have to make a decision on the next pound, never mind the next £100 million.

Q61 **Mr Bacon:** Diana Noble, does the CDC impact fund team have enough skill now to do this at the scale you are talking about?

Diana Noble: Yes. Let me describe the picture from the operating chief executive seat, I guess. It is fair that back in 2012, when we were given the mandate to invest only in Africa and south Asia, and to invest directly alongside funds, we did not have a team and we did not know what the demand was going to be.

What we have learned over the past five years is that if you put a highly committed and talented team behind the strategy and give it a very clear mandate of where you can invest additionality standards, development impact and so on, and you hire the people with the right motivation, it is amazing how much demand and need there is for the CDC team. Let me say clearly, no one at CDC is motivated by scale. We are motivated by the quality of outcomes that we can generate with capital.

Q62 **Mr Bacon:** Do you see, then, that what you did not even know was there turns out to be latent demand? When somebody sees something being done well, they think, "My, perhaps we could do that if we put together a sensible case." Does that manifest itself?

Diana Noble: Yes, very much so.

Q63 **Mr Bacon:** Can you explore with us this question of additionality a bit more? Are you saying that in a territory that is rather marginal, where you would hope you were being additional—where perhaps the economy is not sufficiently diversified and is rather fragile, and there simply isn't enough good infrastructure, and there are poor transport links and a lack of confidence—your very presence is the thing that can make the difference, potentially, to other investors over a period of time?

Diana Noble: There is an element of that, but we haven't fully explored that yet. You will have seen in the Report that our local country presence is still at a very nascent stage, and we want to increase that. You will see that in the strategy over the next five years.

I actually think the demand has been generated because the teams—for example, the direct equity team—have gone out in a very focused way, from scratch, and said, "These are our seven priority sectors. What is the need in those sectors?" If you look at Africa and the poorest places of India, there is enormous need. "What is the best way to get companies going and growing, and what can we invest in?" They have gone out and knocked on doors and found high-quality aligned partners to invest in.

In many ways, certainly on the direct side, where we had to start from scratch, we have generated our own pipeline. In funds, where we have been doing it since before 2000—we were a pioneer of this industry across Africa and south Asia—we now have such a reputation that any high-quality fund manager will want to come to CDC first and get the CDC seal of approval.

Q64 **Mr Bacon:** It will help a project to have your name sat alongside it. Good. I have one more question. You have had some recruitment and retention difficulties; what are you going to do about that?

Diana Noble: We have been working very hard to make CDC a place that high-quality people want to come to and stay in for the long term. That is about selecting the right people, but it is also about creating an environment of, let's say, inspiration that people really enjoy. We all know that the next millennium group of great graduates are coming out of business school. This is the kind of work that inspires them. They do not just want a financial bottom line; they want to make the world a better place. CDC can offer that to them.

Chair: That is a good advert. I will bring in Mr Boswell now.

Q65 **Philip Boswell:** Like Mr Kwarteng, I am following on with a supplemental to Mr Bacon's line of questioning on recapitalisation decisions and particularly the CDC-DFID relationship. In 2015, the decision to recapitalise by £735 million was made by DFID. According to the National Audit Office, the DFID report arguing the case was "quality assured internally"—a potentially dangerous statement. Mr Lowcock, was the DFID recapitalisation of CDC by £735 million in 2015 first suggested by DFID independently, or was the matter looked into upon a request from CDC?

Sir Mark Lowcock: As the chairman said, since 2012 we—certainly I personally—have been making the case. Andrew Mitchell, when he was the Secretary of State, was encouraging us to think this through. We were not ready to do it at that stage, so I do not think it was the case that the shareholder was pushed by the company to do this. I think the shareholder wanted to encourage the company to have bigger ambition, to make a bigger contribution, because CDC has a very unusual capability. London obviously can be the capital market for Africa. Other countries have DFIs that are bigger than CDC—they have invested more in them—but that is not something we have done. We thought that there was an opportunity that was not being taken, and we basically challenged the company to build the capability to absorb more resources and to use them well. That was basically the direction of the conversation.

Q66 **Philip Boswell:** Prior to the recapitalisation, DFID produced the report finding a strong case for recapitalisation. As that was quality assured internally, why did the Department deem an external analysis—an audit on the report—unnecessary? Why was it internal?

Sir Mark Lowcock: Rachel may want to speak to this, but there was quite a lot of external dialogue. We had experts such as Paul Collier, for example, advise us on the future direction for CDC. The reference to the quality assurance is part of a general system that we have in the Department, so that the case put to Ministers for spending large sums of money does not come just from the team who would be spending the money. There is independent assurance from a group run by the chief economist, who is dispassionate and does not mind which team gets the money, if you like, but provides a different point of view inside the Department to justify the case, but a lot of external collaboration was done as well.

Q67 **Philip Boswell:** I can see that owing to the relationship between DFID and CDC, there is a certain discomfort when the watchdog is watching itself, in effect. DFID felt that it was able to analyse the merits of recapitalisation itself, but it does not appoint a board member, as it considers that it does not have officials with the depth of commercial investment experience. Can you explain why DFID felt it was able to analyse the recapitalisation case itself when it does not feel that it is capable of appointing a board member? Had it the capacity?

Sir Mark Lowcock: There are two different things happening here. The job of the board and the board members is to review proposals put forward by the executive team, Diana and her colleagues, on each particular investment—"Is it a good idea to invest in this company?" That is not a skill set that we are hiring people to have inside the Department. What we are hiring people to be able to do inside the Department is understand and make a broader case for whether investing more in CDC versus other things we could spend the money on will be conducive to achieving the strategic goals that Ministers have set.

The Report explains—we talked earlier this afternoon about this—the pros and cons of us appointing a civil servant to be on the board. Our view is that we appoint the chairman—as the chairman has said, we can unappoint the chairman as well—and while the chairman is accountable to us, we do not think that in addition to that we need to appoint civil servants to the board.

Q68 **Kwasi Kwarteng:** This goes to the heart of the contradiction, if you like, in what you are trying to do. On the one hand, you have said that it was basically a political decision massively to expand the balance sheet of CDC, yet on the other, you are saying that you do not want any oversight in terms of how the new entity, with its expanded balance sheet, potentially, will run.

Sir Mark Lowcock: I am trying to say something else. What I am trying to say is that there could be a strategic case for investing in the business. That is what the business case was with the £735 million, which the NAO was convinced by. That is completely different from how you pick the businesses in which to invest once you have got a capital base. What I am saying is that the Government do not think it is a very good idea for civil servants to be taking those decisions.

Q69 **Kwasi Kwarteng:** But you said that the demand for more capital was coming from the Department and Ministers—you mentioned Ministers. The CDC wasn't asking for more capital; it was a policy decision, was it not?

Sir Mark Lowcock: Yes, that is exactly right. We saw a bigger opportunity in these markets, for the reasons I have tried to run through.

Q70 **Kwasi Kwarteng:** Yes, and those were politicians and civil servants. At the same time, you are saying that you do not want to get involved in that, having identified the opportunities and been macro-strategists.

Sir Mark Lowcock: I am obviously not doing very well here, Mr Kwarteng. What I am trying to do is to draw the distinction between the strategic and the individual investment.

Q71 **Mr Bacon:** Can I help you out, Sir Mark? You said earlier that the previous two Secretaries of State supported this idea. Actually, isn't it true that the previous Secretary of State to that, Mr Benn, who was the Labour Secretary of State, said quite explicitly—I remember hearing him saying it on the radio—that trade, business and the private sector will do more to lift people out of poverty than anything else? He mentioned Paul Collier, whose book "The Bottom Billion" was given that title because the

2.5 billion people above that had been lifted out of poverty precisely by the private sector. Until they have been lifted, they are still in that grey zone that Ms Noble was talking about. Is that fair?

Sir Mark Lowcock: I think that is fair.

Mr Bacon: I don't normally help witnesses, by the way.

Sir Mark Lowcock: Well, thank you very much.

Graham Wrigley: From the company's perspective, we think we have got a very engaged, active shareholder. We have quarterly shareholder meetings, AGMs and committees within the board, which interface with the relevant counterparties across DFID. We have a whole series of relationships with DFID on a partner level to try to create investment and work in harmony to get that.

I think CDC is a fundamentally long-term business. We are the oldest DFI in the world, as the Chairman said at the beginning. I will give you a couple of examples that go to this incredibly important point about the governance of CDC and how it must work over the decades and across parties—there must be consensus. Kenya Tea was set up in 1964 by CDC, and 20 years later, in 1983, there were 145,000 smallholder farmers giving product for 39 factories that made one in four cups of tea drunk in the UK. It took 20 years for that investment. 20 years later, Celtel, the first big mobile phone company in Africa, was sold, and that has transformed the economy of Africa. That was a CDC investment. Today, we have a new balance sheet and a new strategy that has been developed over a long period of time—we have been building this thing up for six years.

Look at Sierra Leone today. You asked earlier about poor countries; Sierra Leone is a poor country. Last January, I was in Freetown with President Koroma, and he thanked me—I didn't do any of the work, but I was happy to hear the praise—for the work that the teams at CDC had done with Standard Chartered for the Ebola facility. He thanked us. There was an amazing amount of humanitarian work done by NGOs and DFID, which we can't contribute, but we did our bit to create that trade facility to keep business going. He said, "But the thing we need now is power." Last month, CDC announced its part in providing the debt and the majority amount of equity in a $150 investment—

Q72 **Mr Bacon:** Did you say power, as in electricity?

Graham Wrigley: Power—electricity. The Kissy plant will give 49 MW of electricity, which in the low season will double the amount of electricity given to the whole country. It is a country that has per head one two-hundredth of the electricity we use. Those sorts of things are going to take years. We have been working on it for two years. It will be a long time. It is incredibly important that we have an institutional relationship that goes over the years. We were set up by—

Q73 **Kwasi Kwarteng:** I get all that. You have described it very persuasively and in a way I am trying to use that to ask: why suddenly ramp up the balance sheet? In theory, we are custodians of taxpayers' money. I look at your balance sheet. It is a very conservatively run balance sheet with 10% of assets in cash. I think you are slightly underinvested in terms of the extra £735 million, but you have this incredible track record of success and then, all of a sudden, we are going to transform this thing and completely expand the balance sheet. You can see why we would be concerned about that.

Sir Mark Lowcock: You are asking, Mr Kwarteng, the question I am asking of the team in the Department and the company, which is to just explain to me the business case for another capitalisation. We won't be recommending another capitalisation even if Parliament gives us the authority, unless we are persuaded that there is a case—

Q74 **Chair:** Can I probe that, because it is something that has puzzled us? As Mr Kwarteng said, it is a policy decision to have more available capital, but it could go up to £12 billion. Do you go to CDC and ask it to put a business case to see if it could spend it? Does CDC come to you with a business case? I am not sure who starts the process. Diana Noble, if you have an opportunity in a country, do you come along and say to the Department for International Development, "We think we can invest £2 billion in something; could you let us have that money and then put the business case to DFID?"

Diana Noble: No. That is not how it works. As the chairman pointed out, this is a very long-term business and our teams go out and generate pipelines of opportunities that are sometimes a year or two years in the cooking. I recommend that the Committee looks at the investment we have already achieved and which is highlighted in the Report—the £1.2 billion that we invested in these markets in 2016. Even if we only stayed at that level and didn't grow at all, we would need some money and quite a large amount of money to fund that step up. Because we are such a long-term investor, it will only be when those seven or 10-year investments start returning money—

Q75 **Kwasi Kwarteng:** We are going round in circles. You have a lot of cash and the promissory note. You can expand your investments without additional capital.

Sir Mark Lowcock: Can I make a broader point? In relation to the investment needs of Africa and south Asia over the next generation or two, which are calculated in trillions, what CDC is able to do at the moment is very small. As we said earlier, although CDC has four times as much of its business in Africa than the International Finance Corporation, it is still in aggregate terms smaller than the IFC. So the investable opportunity and the taking of it is what will get Africa beyond its aid dependency and give people jobs, livelihoods and a better future. The investable opportunity will be dramatically bigger than what CDC can do.

The question for us is not how many good investments are there out there. It is: what is the rate at which CDC can sensibly absorb more capital, spend it and use it is a way that does not repeat some of the mistakes of the past? That is what we will be focused on.

Q76 **Mr Bacon:** That is very reassuring. I will not say, "If it's true", because you would not have said it if it weren't true. The fact that you are focused on that is reassuring.

Can I ask you another question, Mr Wrigley? You emphasised, as did Ms Noble, the long-term nature of what you do. Would you see CDC's role potentially in an investee country where the conditions were right to be assisting in the creation of a development corporation locally in which you invested with other partners you found over quite a long period?

Graham Wrigley: We have a whole series of ideas, as you said earlier, about how to take an idea to a country and create development banks, as in the UK and the old 3i group—Investors in Industry. We have been thinking about that as one of the platforms we might do.

Q77 **Mr Bacon:** Right. So the only criterion would be a political one: is it within or outwith your remit potentially?

Graham Wrigley: Are we going back to St Helena here?

Q78 **Mr Bacon:** You mentioned it, not me. I am very glad you said it first. But yes, if the remit were okay, is that the sort of thing in a territory—let's call it a territory—that would be among the many things you might discuss?

Graham Wrigley: Potentially, but can I just add one important point?

Q79 **Mr Bacon:** Ms Noble, you were nodding then. Can you put your nod on the transcript?

Diana Noble: I will just say that we are creative, as I said earlier, about all the ways that—

Graham Wrigley: Can I just add one incredibly important thing to this point about the absorptive capacity of CDC and its ability to invest? I got asked a question by Minister Stewart in the Select Committee: "Would the board of CDC take capital from its shareholder if it didn't think it could invest it in high-development impact, meeting our return requirements and doing that well and thoughtfully?" I said absolutely clearly, "No".

The point I've been trying to make is that we have been developing this business operationally: all the things that Diana talked about with the teams for the last five years, and the conversations with the shareholder about how we can fund it—also thoughtfully—over the last five years.

It's a mutual decision. The shareholder has to want to provide the cash and the company has to believe it can execute it well, and that's the board's responsibility—

Q80 **Chair:** I think we are reassured by that very clear statement. However, figure 18 on page 39 gives the operating costs as a percentage of portfolio value. No doubt, those operating costs also cover the staffing costs, which figure 19 and other figures cover. Actually, figure 20 is also useful on this point.

You have a projection there on the yellow line—the forecast operating costs as a percentage of portfolio value. You can read behind that that there is a portfolio value prediction you are making, so you have a plan, but what is it? Sorry if I'm being dense about this, but when do you go to DFID and say, "We've now got a plan. We're really sure it's on track, so we now need to draw down some money from you. Here's our business case. Will you do it?" And when do you think, "Well, actually, we're not going to manage that"?

What assurances do you put in place, because you have now got all these extra staff ready to do this, which is a cost, and unless you're doing the business, they're going to be a deadweight cost, or there's a risk of that.

Graham Wrigley: The process for that is that we are in the middle of concluding the strategy for the next five years. After that has been approved and agreed with the Secretary of State, then we would work to create a business case to provide any funding going forward.

The reason that that metric is in there, by the way, is something that we have developed ourselves over the last three years, and—thinking of the purpose of this Committee: value for money—one of the things that we will do with the business cases and the strategy discussions is say to the shareholder, "Here are a range of options about what we can do", because different activities have different costs. So, investing in high-impact people on the ground, and not through intermediary vehicles, is much more expensive than working in providing debt from London.

So those numbers were illustrative forecasts to show the NAO how we are strategically thinking about costs.

Q81 **Chair:** Can I just go on to the staffing issue? We touched on this a bit earlier, but there's going to be pressure on salaries, or we understand there is, because of competition out there. Ms Noble, you made a very cogent case for how people want to do this because they want to do good; they are not after just the bottom line. However, figure A19 highlights some of the issues around salary, and there is a worry that there is an upward pressure on salaries. How are you managing that risk to the business, because you need the people to do the job, but you also don't want to go back to—well, I think it would be a long way to go back to the bad old days, when salaries went up exponentially to ridiculously high levels?

Diana Noble: The Report paints a very clear picture of the changes that have been made as a result of the recommendations; it was one of the first things I did as the new CEO. But now we do have to look at the sustainability of the organisation. We've hired a lot of people very quickly. There is a fantastic team; there are lots of different skills in that team.

However, matched to our being a long-term business is that we need long-term staff. We don't want to be a revolving door, and that is something that takes real attention from my board—I can tell you—and from the executive team, as well.

Q82 **Mr Bacon:** You have an HR director?

Diana Noble: Of course we do, and an HR team, too.

Q83 **Mr Bacon:** The Report says that the average salary has gone from £123,000 down to £90,000. Would it matter—would it be a big problem—if it went back up to £123,000?

Graham Wrigley: It would, because that would be outside the remuneration framework that we have agreed with the shareholder. So, this is one of the things that is not delegated to the board. The remuneration framework is decided by the shareholder—

Q84 **Mr Bacon:** Presumably, though, that's partly because of the history. It doesn't say £970,000 there, but that is the number that the—

Graham Wrigley: No, but one of the big changes made in 2012 was to come up with an entirely new framework that explicitly stated that the benchmark against the private sector had to change. That is what we have done. As Diana has said, we have an amazing team of 220. I haven't met them all, but pretty much everybody I have met, in a variety of ways, somewhere in their background—it might have been a father in Africa or a gap year experience or whatever—is driven by our development mission.

Q85 **Mr Bacon:** Equally, you want the very best people. Our colleague Stephen O'Brien, who is now Under-Secretary-General at the United Nations, was born in Tanzania and has founded a successful charity in Africa. He has a deep understanding; his father was a local commissioner, or whatever they called it in those days. You don't want to hinder yourselves. There was a stratospheric problem with a very small number of people, and it was right that that was stamped on and we support that, but you surely don't want to hinder yourselves at a much lower level—this is a much lower level compared with the problem we were talking about—from getting the very best people,

Graham Wrigley: Other than getting the strategic balance—the perpetual paranoia between development impact and financial return—the biggest thing I worry about as chairman is this point about the staff and the team. However, we are also very aware that there is a remuneration framework that is very clear about our benchmarking, and that is something we have to manage. We try to do it as creatively as possible, not just focusing on the money but on the other non-financial attractions of working for the CDC. It is something that we—as the NAO Report is right to note—have to keep continuing to review.

Q86 **Mr Bacon:** Presumably, if you noticed an adverse effect on the organisation over a cycle of a three to five-year period, that is something you would draw to the attention of the shareholders.

Graham Wrigley: Absolutely. We discuss retention and attrition at every quarterly shareholder meeting.

Q87 **Chair:** Just to be clear: you say that you have a strategy on pay with the shareholders. What freedom does that give you to put salaries up or down as necessary?

Graham Wrigley: We have a series of benchmarks, and within those benchmarks we have a review, which is under way at the moment. There is flexibility, but it is pretty tight.

Chair: That is interesting, in terms of the independence of the organisation.

Q88 **Kwasi Kwarteng:** You are an investment professional, so you know that, as funds get bigger, it is more challenging to get a financial return. You mentioned the point, which we noticed, that your compound annual growth rate has actually gone down in the last period, for various understandable reasons. Going forward, as the fund potentially gets bigger, do you think you will be able to meet your 7.5% average of the last four years? Do you think it will be lower? What are your thoughts about the strictly financial aspect of your challenge?

Graham Wrigley: Our target is 3.5%, and we have been pleased that we have exceeded that for the last five years.

Q89 **Kwasi Kwarteng:** Out of interest, do you think that is a good target, when you have a cost-free source of capital?

Graham Wrigley: I think 3.5% is much harder than people usually think. Look at what the expected rates of return are likely to be in developed markets for the next five years. As part of the strategy review, we have spoken to many people, and people are thinking there will be 2% to 3% real returns, and inflation rates of 2% to 3%, so that gives expected returns of 4% to 6% for most people—profit-maximising investors—in the next five to ten years. If we all imagine ourselves as trustees of a pension fund and ask what a reasonable target is and where we would invest that money, we would probably put some in shares, some in property, some in Government bonds and some in corporate bonds.

Q90 **Kwasi Kwarteng:** So you think the 3.5% target is achievable?

Graham Wrigley: I think it is achievable but more challenging than people think. I think the returns will come down from what they have been in the past. Our purpose in the CDC is development—that is our purpose. That is what motivates Diana and all of the people in Victoria Street or wherever they are now and the rest of my board colleagues. Our imperative is to make a financial return. Getting a financial return is important because, first, it shows that we are investing in sustainable businesses.

Q91 **Chair:** We understand that. Can I just go back to a point that Mark Lowcock raised earlier? You talk about assurance processing in-house with a chief economist. I am sure the chief economist is a very able person, but assuring a fund like this is very different from assuring straight funding that goes into projects in Nigeria or wherever. Do you think you have the skills necessary, particularly as this portfolio is expanding, to do the assurance in-house, or do you need to bring in outside expertise, too? Maybe Rachel Turner can answer that as well.

Sir Mark Lowcock: When I was last here on CDC, one of the criticisms was that we did not have the right capability inside the Department. The NAO looked at that again and I think they satisfied themselves that we do have the right capability, which includes external legal, financial and corporate advice. But we will need to keep that under review and keep looking at what we need in future. Rachel can speak a bit about that.

Q92 **Chair:** Rachel Turner, who is in your team and what expertise do they have? Are they all civil servants, or do they come from different backgrounds?

Rachel Turner: They are civil servants, but I have been lucky to be able to bring people in from the private sector. Just as Diana and Graham said, there is a group of people who are very excited and motivated by the development challenge. We have also been able to recruit people from the financial sector to build our skill base, which is great. We also have access to expertise from UKGI—UK Government Investments, which used to be called ShEx. They are able to give us good professional support as well, in terms of shareholding interaction; that is a good extra source of advice. We have access to legal advice as well, but as Mark says, when we come to build a business case, we will certainly need to look very hard at the mix of skills and whether we have got them all.

Q93 **Chair:** During the hearings, it has become apparent that the relationship between CDC and DFID is actually closer than it might first have appeared for something that is separate and independent. That is, to a degree, reassuring. What if you lost those people with that expertise? Are you able to pay them enough to keep them?

Rachel Turner: Well, we seem to be able to recruit people. There seem to be people in this specific skill set who are motivated and excited by it, and at the core of those are economists. DFID has several tens of economists—probably over 100 or 150 economists—in the organisation. We have a good pool of highly skilled economists who we can bring into this team.

Q94 **Chair:** That is certainly helpful. I want to touch on the issue of where and how you structure the funding. Diana Noble, you use tax havens to channel the funds sometimes. Can you explain your strategy on that, particularly given our Committee's interest in this issue?

Diana Noble: We use OFCs only when absolutely necessary, either to protect taxpayers' money when we are investing in places with inadequate legal and financial systems, or to pool capital from third parties; when we crowd in capital from many different investors in many different locations, we obviously want to pool it in a neutral jurisdiction with strong systems.

I think Sir Paul Collier put it very well in his evidence to the Bill Committee: there are three reasons why you might want to use an offshore centre. Two of those are bad reasons—because they are tax havens or because you want to hide information—and clearly we avoid those two. There is one good reason to use them, as we do, and that is to use them as a neutral jurisdiction to attract investors.

I think there is an increasing understanding that our mandate—since 2000 we have crowded in $25 billion to funds, alongside our $5 billion, so these are enormous numbers—justifies this.

Q95 **Chair:** Obviously one of the measures you have is about how much tax is being generated by your investments. Do you envisage, or have you had, any examples of managing to move that funding in-country from a tax haven, perhaps as you or DFID have helped a tax system develop?

Diana Noble: Actually, by making direct investments, with that part of business, we are much more in control of the decision of where the funding is placed. You will see that, in the direct part of our portfolio, it is almost exclusively directly into the countries where—

Q96 **Chair:** Really, it was more when you were doing funds in collaboration, so you are seeing the number of tax havens you are using dropping down.

Diana Noble: Yes.

Q97 **Chair:** I want to ask about figure 9, which highlights the balance of the portfolio, which we have discussed in the round quite a bit. I understand that you have quite an interesting mix, including a private school which is charging £20,000 a year in fees. Is that an investment you know about? Is that something you have invested in?

Diana Noble: That is an investment that has made immense progress. It started off with two schools that are charging these kinds of figures, but since, it has opened seven low-cost schools. You will sometimes see this: we invest in a company that is a high-quality operator serving richer people, and then we encourage them to use that expertise—

Q98 **Mr Bacon:** And the profits, presumably.

Diana Noble: And the profits—exactly—to cross-subsidise. That is a very effective strategy.

Q99 **Philip Boswell:** Returning to the relationship of the governance and watchdog function, it is a little off-piste, in as much as I have looked at the CDC Group plc investment policy for 2012 through 2016, and on page 12 of this document it states that "DFID may, from time to time, request that CDC contribute to reviews or audits of DFID." Why is it deemed appropriate for CDC to audit or report on the internal workings of DFID, given that DFID is responsible for the oversight of CDC and ensuring that the public money being given to CDC is used appropriately?

Sir Mark Lowcock: I will double check, but I think Rachel may know a bit more about the detail of this.

Rachel Turner: We have, for example, a wide economic strategy in Kenya; let us say that we were having an evaluation of that work in Kenya. There would be an expectation that CDC would have useful things to say about how DFID's other work—not its shareholding of CDC—was performing. The evaluators of DFID might well welcome opinions and views from CDC.

Q100 **Chair:** So it is informal.

Rachel Turner: Yes. CDC might well get asked, "Do you think that DFID is doing a good job in building up the economic infrastructure in Kenya?", for example. That is my understanding of that.

Q101 **Philip Boswell:** That is one example. In that case, how many audits and reviews of DFID has CDC contributed to since 2012?

Rachel Turner: I think we would have to come back to you on that specifically.

Q102 **Philip Boswell:** Please do, in writing. We heard earlier about serious issues being the criteria on which other issues are reviewed, but are there certain parameters for when DFID chooses to involve the CDC? Or is the CDC's involvement on an ad hoc basis? You gave an example, Miss Turner; what would those parameters be, beyond the example you gave me? Or is there a process?

Rachel Turner: In relation to?

Sir Mark Lowcock: In relation to evaluations and analytical pieces. One of the things the Report also says—the Chair touched on it, with Mr Bacon—is that Graham and Diana's plan is to have a large number of overseas offices, so that there would be more opportunity for interaction of the sort that Rachel has just given me an example of. We have not completely written down all the criteria where that would be possible, but one thing we have been absolutely clear about is that that isn't intended to be a vehicle for civil servants to give brilliant ideas to CDC to invest in. It is intended to facilitate more interaction of the kind in the example Rachel has just given. So if CDC have a better understanding, say, of the investable market in Kenya and, hypothetically, developed the view that if only there were more high-class lawyers who could operate better through the commercial justice system in Kenya, that would make it easier for businesses to do business, that would be something that the company could bring with knowledge to DFID, and we could think about whether we could do something about that. That would be an example.

Q103 **Chair:** Mr Wrigley, do you want to add anything?

Graham Wrigley: I can give you an example at the moment; we are very keen to work in Nepal on hydro-power. Our south Asian team is working with the DFID country office to look at an enabling environment for legislation and power agreements in Nepal. That will be a way in which there is synergistic work between DFID and CDC.

Sir Mark Lowcock: That is a good example, because we advise the investment authority in Kathmandu, so that is an example where there is some real scope for useful knowledge exchange.

Q104 **Philip Boswell:** Finally, then, if I have got this right, have CDC contributed to a report, an audit of DFID, the subject of which was DFID funding and oversight of the CDC?

Sir Mark Lowcock: I can't actually think of an example where CDC has been specifically consulted on an audit. That is a narrow category of things.

Philip Boswell: But that is what it says in the document.

Mr Bacon: You are dangerously close to being a self-licking lollipop.

Q105 **Philip Boswell:** Could you check that, because that is what it says on page 12, under D.5, Other Matters? I have already quoted it: "DFID may, from time to time, request that CDC contribute to reviews or audits of DFID." It just seems quite curious—

Chair: Can we clarify what document you are citing?

Philip Boswell: It is the CDC Group plc's "Investment Policy for the period from 1 January 2012 to 31 December 2016".

Chair: Can you write to us on that?

Sir Mark Lowcock: Yes.

Q106 **Chair:** The last few questions are from me. You are obviously changing the model from funds to direct. You do not yet have people on the ground. Is that hampering your ability to ramp up those investments?

Diana Noble: Can I just make it clear that I am not removing from funds to do it? We are combining both and doing more direct.

Our approach to people on the ground has been phased. In 2012, I inherited an organisation with 49 people who were focused on funds. Going back to the point made earlier, we knew that making direct investments was a different skill, and would require a real ramp-up in the team at CDC, so we decided to focus on London in the first phase, because we thought it was just too hard to set the standards, processes and culture to be really consistent—and establish an organisation that would last for decades and for the long term—if we were doing it in multi-locations. However, in that first phase we did select a couple of people to be in the regions to help us with our decisions, because we are always nervous about sitting around a table in London and making a decision without local knowledge. It has an impact on lots of our decisions. We already had some high-quality people, but just a small number.

In the next phase, we are building our team in Bangalore and in Johannesburg. We have opened up an office in Nairobi and in Kinshasa. We have got a view about the next stage as well, but we will be pragmatic because we have to find the right people—it is the same point that we raised earlier—who both have the skills and are aligned to our culture, because CDC will do things in a CDC way. These people do not grow on trees, so we have to be pragmatic.

Q107 **Chair:** So you might have teams with expertise that go in and look at a sector in a country.

Diana Noble: Yes, it will be a combination of sector teams who really understand a sector, and we have teams in the country who really know the local context, because you cannot generalise. Every country in Africa is different, as we know.

Q108 **Chair:** I want to turn to figure 6 in the report, which shows that 64% of the new portfolio is invested in just two of the seven priority areas. When are you going to invest in the other five priority areas? I am looking at figure 6 on page 22.

Diana Noble: What that figure does not show is what is normal for a DFI. Financial institutions and infrastructure are the largest sectors for every DFI. Why is that? Because the amount of capital that the infrastructure needs is enormous, and we want banks to on-lend to small businesses and SMEs and so on, and they can also absorb quite a lot of capital. This is not an abnormal portfolio. It is fair to say that since 2012 when we adopted these priority sectors, the portfolio has shifted. A very large proportion now is in those seven priority sectors. We have seen a big increase in financial institutions and infrastructure, but on the other side, we have seen a fall in consumer and in extractives, which are not priority sectors, so the grid and the selection of the priority sectors is having the effect that we wanted it to have.

Q109 **Chair:** Finally, Mr Wrigley, Ms Noble is leaving. She has done a very big job, turning this organisation into a completely different set-up, while keeping salaries considerably lower than they were. What is the process for her replacement?

Graham Wrigley: First, you are right: Diana has done a great job and we are going to miss her, but this is a well-planned succession. Diana and I have been talking about this for many years, and about when was the right time. Now was the right time, with the new five-year strategy, so we started a process last year, with advertising and with the sub-group of the board, and we are in advanced stages of discussions. We will hopefully have a successor by the summer.

Q110 **Mr Bacon:** Ms Noble, I was interested in what you said about education for two reasons. First, when I worked in Tanzania with VSO, it was very apparent that teachers sometimes did not teach because they were too busy tending their fields to get enough food to live on. Secondly, I remember going around Kibera, a big slum in Nairobi, and the chap who showed me round pointed to the school where he had been educated and said, "There used to be 60 to 70 children in that class when I was there. It is now really good, because there are only 45 children in each class." What proportion of your profile is facing towards the education sector? What do you see happening to that over the period ahead? This may be a question for Mr Wrigley as well.

Diana Noble: It is a low percentage—at the moment it is 1% to 2%—but we agree with you. Obviously, education is a fundamental human right and there is a great need for greater access and greater quality, and the private sector can play its role. *The Economist* wrote a very good article a couple of weeks ago about the need for innovation, and the need for the private sector. Our strategy is to look for education businesses that can improve the status quo by improving quality or reducing costs—ideally both.

Q111 **Mr Bacon:** I am not that familiar with most countries in sub-Saharan Africa—I have only been to a few—but it is fair to say that in most countries people have to pay school fees now, don't they?

Diana Noble: Yes, that is right.

Q112 **Mr Bacon:** So do you see this as a growth area for you?

Diana Noble: Yes, we do. We made an investment in last year in higher education in a company called UNICAF. It is fascinating: it is combining online and physical presence for higher education students who are mostly combining study alongside their employment, to better themselves. It is providing western-style degrees at a fraction of the cost you would pay here. We are scaling it up: the money we have given is allowing it to expand its physical presence. It is opening up a campus in Malawi at the moment. So we are excited about that.

Q113 **Kwasi Kwarteng:** There is a lot going on in this organisation. As we said, for 20 years, you were more or less doing the same thing. There were ups and downs, but now your geography and investing technique is changing—you are broadening out to direct investment—and you are getting more capital. Do you see any risks in any of this?

Graham Wrigley: Yes. My job as chair is to see risks everywhere. The question is to try to manage them.

Q114 **Kwasi Kwarteng:** What kind of risks?

Graham Wrigley: We knew this was going to come, so three years ago we separated from the audit and risk committee a specific risk committee. That covers everything, from financial risk to risk of not hitting our development impact targets, risk of bribery and corruption and operating risk. We have a great team. We have got a great chairman of the risk committee, who is a very experienced, wise man, and he interfaces with a new CFO that we have recruited.

The way we have tried to respond to this challenge is by expanding the remit and commitment of the board, and Diana has built a great team. There are risks, and there will be residual risks inherent in our challenge. Our job is to try to manage those risks as well as we can.

Q115 **Kwasi Kwarteng:** I am talking about risks in the transition. I am not talking about general investment risks.

Graham Wrigley: But this is what we have been doing for the last five years. That is what I was trying to say. The organisation has been thoughtfully built up. The geographic expansion—we did have a lot of people asking us three years ago "Why don't you open offices?" and we said, "We're not ready yet. Let's get the core based in Victoria Street, and then thoughtfully add on." That is where we are now.

Diana Noble: Can I just say that CDC isn't just run by me? It is run by an executive committee of fantastic people, who are all staying in place, so there will be continuity.

Q116 **Chair:** Sir Mark, what keeps you awake at night?

Sir Mark Lowcock: There are two things I would say. The first is that there has been a very good extended period of positive returns, and the chairman, Graham, has said that a lot of people think the markets will be a bit more difficult in the period ahead, so whether the targets can be met consistently into the medium term is one of the things, and what the right targets are is one of the things we are thinking about as we discuss with the company the next investment policy and strategy. The second one is the risk Mr Bacon alluded to—the people risk—and the retention issue, where, as Graham said, we are juggling a number of different things.

Chair: Thank you all very much indeed for your time. Thank you, Ms Noble—I think we won't be seeing you again. Maybe in another guise. The transcript will be available on the website uncorrected in the next couple of days, but you will obviously be sent a copy. I cannot tell you at this point when our report will be coming out. We don't like to delay; it is just that we have a pipeline we have to get through.