HOUSE OF COMMONS

International Development Committee

Oral evidence: Extreme poverty and the Sustainable Development Goals, HC 932

Tuesday 29 March 2022

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Watch the meeting

Members present: Sarah Champion (Chair); Mr Richard Bacon; Theo Clarke; Mrs Pauline Latham; Nigel Mills; Navendu Mishra; Kate Osamor; Mr Virendra Sharma.

Questions 39 - 124

Witnesses

I: Nick O'Donohoe, Chief Executive Officer, CDC Group; Diana Layfield, Chair, CDC Group; Mita Samani, Head of the Private Sector Department, Foreign, Commonwealth and Development Office; Caroline Read, Director of Economic Co-operation and Growth Directorate, Foreign, Commonwealth and Development Office.

Examination of Witnesses

Nick O'Donohoe, Diana Layfield, Mita Samani and Caroline Read.

Q39 **Chair:** I would like to start this session of the International Development Select Committee. We have before us witnesses from CDC and from the FCDO. I will ask you each to introduce yourself, your role and your organisation, and then we will go forward with the formal questions.

Diana Layfield: I am Diana Layfield and I have the great privilege to be the new chair of CDC, soon to be renamed BII.

Nick O'Donohoe: I am Nick O'Donohoe. I am the chief executive of BII.

Mita Samani: I am Mita Samani. I am head of the private sector department in the FCDO.

Caroline Read: I am Caroline Read. I job-share with Nicola Webb, the director for economic co-operation and growth in the FCDO. We took over the director portfolio of BII in January.

Q40 **Chair:** Thank you all very much. From memory, I think it is 8% of the funding from FCDO that goes to CDC. Is that correct?

Nick O'Donohoe: That is the maximum that has taken place over the last 10 years. The average is more like 3%.

Chair: Because of that, this Committee takes a very keen interest in what you are doing. I will ask Nigel Mills to kick off the questions.

Q41 **Nigel Mills:** Nick, Diana just alluded to it, but could you talk us through why you have chosen to rename yourselves from CDC to BII?

Nick O'Donohoe: There were three reasons. The first was that we were, as I am sure you can imagine, regularly confused with the Centers for Disease Control, both in the United States and in Africa, which, even before and certainly after covid, is a much better-known CDC.

There were also some legacy issues related to the original name of CDC, which is the Colonial Development Corporation. That became the Commonwealth Development Corporation and then CDC. There were some concerns about that legacy.

Thirdly and probably most importantly was the fact that we are a British institution paid for and funded by the British taxpayer. Indeed, by looking at the name and logo of almost all our peer organisations or other bilateral development finance institutions, you can tell which country they represent. That was not the case with CDC, so we felt that it was very important to put Britain or the UK in the name.

Q42 **Nigel Mills:** Your name could be the name of any hedge fund or investment group. Is there a reason why you do not have "development" in the name, to reflect your special purpose?

Nick O'Donohoe: It is not a given that other development finance organisations necessarily have the word "development" in their name. Everybody knows, for example, what the IFC does. Being British International Investment will, hopefully, communicate the broader scope that CDC has. We are, first and foremost, fundamentally a development institution, but we also have an important role to play in climate finance, for example, and there is significant overlap between climate finance and development. We felt that communicating that breadth was important and valuable.

Q43 **Nigel Mills:** How much is it costing to rename and rebrand yourselves? Is this burning through your 3% from FCDO?

Nick O'Donohoe: We believe the cost is less than £30,000, so we have done it very much on the cheap, if you like. I was just talking outside, actually—we had a meeting this morning of our steering committee, and I decided that, since we are changing our name at the weekend, it might be a good idea for me to show up at the steering committee so that I could understand the risks and the magnitude of the task. An enormous amount of work has gone in by a significant number of people at CDC to ensure that, when we formally change our name, which will take place this weekend, we are prepared to do that. In terms of costs of outside agencies and so on, we really have done little or none of that.

Q44 **Nigel Mills:** The 30 grand you quote excludes staff time, basically—

Nick O'Donohoe: Yes.

Q45 **Nigel Mills:** And that cost would have been a lot. Are there any other changes on the back of this? Are you reorganising or restructuring at the same time or is it purely a name change?

Nick O'Donohoe: It is purely a name change. As the Committee knows, we have now spent the last 18 months to nearly two years in discussion with FCDO about our new five-year strategy. That strategy carries with it certain additional responsibilities and activities, but they are not associated. The name itself does not make any direct difference.

Q46 **Mr Sharma:** Diana, as the new chair of CDC, what are your priorities over the next five years?

Diana Layfield: The first thing is just to acknowledge that I am extremely conscious of the responsibility that we have as an organisation and that I have as the chair, both to developing countries and to the UK taxpayer. For me, the critical things will be to facilitate the extraordinary impact that I believe BII can have around the world, driving the development agenda, and to ensure that all our stakeholders can be proud of the work BII does and the impact it has.

Specifically, what that means is ensuring delivery of our new five-year strategy. As Nick has just outlined, the team and the FCDO have spent a long period of time defining the next five-year period, and it is an ambitious plan. It is very much impact-led—even more so than the previous strategy. It is commercially rigorous, with a focus on long-term sustainability.

In addition to driving and landing the five-year strategy, I am very conscious of the fiduciary and regulatory duties that we have as a board and, as I said, making sure that we are accountable to all stakeholders.

Q47 **Mr Sharma:** My next question is a little sensitive, but I hope that you will take it in the spirit that I am going to put it to you. How will you balance your new role with your existing roles as president of EMEA partnerships at Google and non-executive director at AstraZeneca? You have so many powerful positions. How will you balance them?

Diana Layfield: It is a perfectly legitimate question. The first thing to say is that the roles I have at the moment are reflective of a 30-year career across three sectors—healthcare and life sciences, technology, and financial services. I believe that all of those are deeply relevant to the work that we do at BII. Far from being a distraction, those roles are helpful in the long term, and helpful experience for BII.

Specifically, I am very clear on the days during the week that I carve out time for BII and I am physically in the office, which is something of a rarity these days. I make additional time whenever is needed, so the balance works well. I have to work exceptionally hard to balance those, but that is something that I am very happy to do, and I find all of them enormously fulfilling and exciting.

Q48 **Mr Sharma:** Do you foresee this causing any time management problems in your role?

Diana Layfield: I do not. I do not foresee any conflicts. We explored it quite extensively with the board and with the interview panel during the selection process, and it is something that I am extremely confident about.

Q49 **Chair:** You said that you carved out a block of time for CDC. How many hours is that in a week, or does it not work like that?

Diana Layfield: I try to spend a day a week in the office at CDC, and I have a large number of virtual meetings, calls and other things that happen around that time. Physically, I try to be in the office for a day a week.

Q50 **Chair:** Is the team back to in-person office space, or is it still all working virtually?

Nick O'Donohoe: We have asked the team to spend four days a fortnight in the office, so roughly two days a week. We started with that policy just before Christmas. When omicron came along, we suspended it, and we reintroduced it about six weeks ago. The new normal is that most people spend two to three days a week in the office, and they do it on Tuesday, Wednesday and Thursday, so Monday and Friday are quiet.

In the last couple of years, we have also demonstrated that, as an organisation, we can work effectively on a hybrid basis and, in some cases, almost entirely from home. We also have to recognise that, for many of our staff, there are significant benefits. They are working every bit as hard as they were before, but it gives them more flexibility to juggle children or other caring responsibilities. We think that, overall, that is a good thing.

Q51 **Chair:** This Committee has pushed you a couple of times on the number of staff you have based in London and whether you could base them around the world, particularly in the countries that you focus on. Is this an opportunity for you to start exploring that more?

Nick O'Donohoe: All our international offices have experienced the same covid issues that we have, and they largely followed the same policy and have been closed for various periods, so they have had to adapt to home working as well. As you said, we have talked in the past about this question of having people overseas. When I came to CDC five years ago now, there were two or three people working outside of London. Today, it is about 60. We would expect that, this year, that will probably expand by another 30 or so, so a significant part of our expansion going forward will be overseas.

As I have also told this Committee, based on many years of experience of working with complex financial institutions and running global networks, you have to be careful of culture, controls and cost. You have to ensure that you have critical mass. We have to move prudently to ensure that we can be as effective working locally as in London.

Q52 **Theo Clarke:** Nick, in announcing the rebranding to BII, the Foreign Secretary made clear that it was part of a wider strategy to promote British jobs, interests and international trade. How will those factors impact on your investment decisions going forward?

Nick O'Donohoe: First of all, I would stress that we are not an organisation that is tied in any way through our investments to UK interest. As I have said before, being a British institution and owned by the UK Government is a significant competitive advantage to us in a whole host of ways, and there are lots of examples of partnerships that we have made, whether with Vodafone, with Standard Chartered, or with SmithKline on the malaria vaccines, whether it is helping to set up and support large funds that are located here, like DPI or Helios, or whether it is setting up and running business like Globeleq from here. There is a range of activities that we do together with British companies, and being on the doorstep of the City of London helps us when it comes to mobilising capital for other investments.

Overall, there is no requirement—there is nothing that is forcing us—and there has certainly been no change in any of the guidance that we have been given about how we should be investing. As I said, it is a big advantage for us, and so we will do as much as we can to take advantage of that.

Q53 **Theo Clarke:** Caroline, is the Foreign Secretary expecting to see a greater emphasis on promoting British jobs and trade in CDC investments?

Caroline Read: Nick has set out where the key links are with British business in terms of working directly with some British businesses, and the Foreign Secretary will expect that to continue. There are also opportunities to work with British business through some of the trade and export finance offerings that BII has.

I would add one further element that I know the Foreign Secretary is focused on. Part of what BII does is transforming the business environment in the countries and businesses that it works with, which is raising standards globally. That offers opportunities for UK businesses that work to those standards, and provides opportunities for those businesses to invest in those countries. That is an area that the Foreign Secretary is really focused on.

Q54 **Theo Clarke:** Nick, your new strategy envisages that BII will "link thoughtfully with other UK Government partners," such as the Department for International Trade and UK Export Finance. What does that mean in practical terms?

Nick O'Donohoe: In practical terms it means communicating effectively, on the ground, in country, particularly with UK Export Finance but also with DIT representatives, who generally exist in the embassies and high commissions in the countries that we go to; having an understanding of what each other's objectives are; having an understanding and a sight, where possible, of a pipeline, and knowing where the opportunities are to work together. Over the last year or two, in a number of countries, we have been bringing these groups much more closely together.

There is some overlap between what we do and invest in, and what UKEF does and invests in, but it is not a huge overlap. It much more a question of communication, introduction and knowing what each other is doing.

Q55 **Theo Clarke:** When you say "communicate more effectively", can you give me an example of what that will look like in practice?

Nick O'Donohoe: It means that, every month in the offices in Nairobi and Egypt, the high commissioner or ambassador brings the representatives of these organisations together and gets them to talk to each other. That was not always happening before.

Q56 **Chair:** Nick, I am interested in this, and I would just like to pick away a little bit. The Foreign Secretary has talked about carrot and stick when it comes to aid. She has talked about trade and aid in the same breath. I have always been very concerned about tied aid and I wonder if this new approach is putting an additional administrative burden on you or putting some reins on the sort of investment that you are meant to be doing.

Nick O'Donohoe: I can say categorically that there has been absolutely no change from where I sit.

Q57 **Chair:** This is what interests me, because I am wondering if you and the Foreign Secretary sit on slightly different tables.

Nick O'Donohoe: I can speak only for what messages I am receiving and whether our governance has changed or there are any attempts to influence our investment policy in any way differently. It is one of the things that I am most proud of about running this development finance institution. I say this regularly to people we are interviewing, because they often worry about coming to work for an organisation that is Government-owned. I put my hand on my heart and I say, "I can tell you that, in five years, there has not once been an attempt by Government to get us to invest in something or divest from something."

Q58 **Chair:** What would you do if that position changed?

Nick O'Donohoe: We have a very clear governance structure that needs to be and is respected by both sides.

Q59 **Navendu Mishra:** On the point of tied aid, in January 2021, CDC Group purchased fossil fuel power plant operator Cummins Power Generation Nigeria Ltd. Has the FCDO made an assessment of whether this constituted tied aid through the change in geostrategic priorities?

Mita Samani: Could you repeat the name?

Navendu Mishra: The operator is called CPGNL—Cummins Power Generation Nigeria Ltd.

Caroline Read: Individual investments are down to BII and the board, so I might hand over to Nick on that individual case.

Navendu Mishra: My question is whether the FCDO has made an assessment regarding this investment and if it counts as tied aid.

Mita Samani: Our general policy is that we do not tie our aid, and CDC's mandate is also not tied. The governance structure is such that FCDO delegates all decision making on investments to the board, the investment committee and the management committee. We have not made any assessments of any of CDC's investments.

Q60 **Chair:** Mita, your general policy is that you do not tie aid, so that means that, in some situations, you would tie aid.

Mita Samani: Sorry, no, the UK does not tie, under the International Development Act.

Q61 **Navendu Mishra:** On this specific project, no assessment has been made.

Nick O'Donohoe: I am not familiar with that project.

Chair: Would you mind looking into it and coming back?

Nick O'Donohoe: I will certainly do that.

Navendu Mishra: Can you write to the Committee?

Nick O'Donohoe: Yes. It may be that it was a project through one of our funds.

Q62 **Mr Bacon:** Diana Layfield, you used to be the chief executive of Standard Chartered in Africa—a commercial bank. The CDC, now BII, is a bilateral development finance institution, which is a similar thing to a commercial bank but not the same thing. What are the differences between the two?

Diana Layfield: The first is that a commercial bank is focused on making a commercial return. I think and believe that Standard Chartered did that in an extremely thoughtful and ethical way, but it exists to earn a clear commercial-level return for its shareholders. In the case of CDC, its primary objective is around development impact, which is a very different metric. CDC's primary goal is to have development impact, which is very different from a bank's goal.

Q63 **Mr Bacon:** Is that BII's primary goal as well?

Diana Layfield: It is absolutely BII's primary goal as well. My apologies if I use the two names interchangeably. We are, as you know, this week going through a name change, as Nick outlined, so we tend to refer to it somewhat interchangeably at the moment. I hope you can hold us to account next time to say only BII.

So the first difference is the primary goal of the organisation. CDC's is absolutely focused on development, and development impact. As you say, CDC is an investment institution, and one that is funded primarily—85% over the coming period—through recycling its investment returns. CDC also aims to make a return, but that is a secondary objective to development impact, and the return it seeks to make is considerably lower than any commercial organisation.

Q64 **Mr Bacon:** Would Standard Chartered and its peer group in Africa, say, be trying to profit maximise? Would BII then be not trying to profit maximise?

Diana Layfield: Absolutely, BII is not trying to profit maximise. I do not think that it is fair to say that commercial banks in Africa are trying to profit maximise. If you look at the work they do, it is balanced across the board, but they are commercially owned organisations, not development finance organisations.

Q65 **Mr Bacon:** If I were a shareholder of one, I would hope it was a profit maximiser. I spent many years of my life defending mutual building societies, their advantages being that they were not, unlike commercial banks, profit maximisers, but you are saying that commercial banks in Africa are not profit maximisers.

Diana Layfield: I did not say that they were not profit maximisers. I said that they were not purely profit maximising. They also have local shareholders in many cases, and they have a sense of their responsibility to the communities. I should also point out that, if you wanted to ask Standard Chartered about its objectives, it would probably be best to ask existing employees and the chief executive of Standard Chartered.

Q66 **Mr Bacon:** Yes, absolutely. CDC's previous strategy talked about investing only in Africa and south Asia "where the poorest people live". What is the rationale for the shift in the geographic remit towards the Indo-Pacific?

Diana Layfield: If you look at the new strategy, many of the aspects are consistent. The focuses on Africa and on the private sector remain core to BII's objectives, so we will continue to invest in Africa. In fact, the total amount that we invest in Africa over the coming strategy period—and in the poorest in India—will rise in absolute terms. We have merely broadened the investment pool and objectives to include a substantial increase in climate finance.

We are all fully aware of the imperatives that the world faces around climate. In particular, as Nick pointed out, the impact of climate change affects the world's poorest and most marginal populations disproportionately compared to others, so it is a terrific move that BII is stepping up its investment and dedicating 30% of its investment to climate finance. It is in the regions that you have mentioned for expansion—the Indo-Pacific and the Caribbean—where that focus will be on climate finance.

Q67 **Mr Bacon:** I cannot remember exactly, but I was on the Public Accounts Committee for 16 years and the CDC was the subject of a National Audit Office report many years ago, which criticised the salary of the chief executive and pointed out that the then strategy of the CDC—this is the last strategy but two, I guess, or at least one—was not to focus on the areas that needed most help with poverty reduction, but rather, essentially, to ape the activities of a wide range of commercial emerging market funds, producing, unsurprisingly, similarly spectacular returns and then rewarding the directors accordingly. The NAO said that this was very visible and not what the CDC is supposed to be there for, and then there was a big shift towards a much greater focus on poverty reduction, where some countries that were doing better dropped off the radar.

Now we have a new institution with a new name and a greater focus on the Indo-Pacific and the Caribbean. The letter that the Foreign Secretary wrote to our Chair on 21 March talks about the restructuring in relation to the FCDO. The word "poverty" does not feature anywhere in this letter at all. I am just wondering where poverty reduction fits into your radar.

Diana Layfield: Poverty and poverty reduction remain an absolutely core part of CDC's mission. You are very welcome to visit and walk around the institution.

Mr Bacon: I am sorry that I could not come before; I had a clash.

Diana Layfield: If you talk to people, you will feel that very tangibly among the population. As a group of people, I have been really struck by the passion for development that you feel among the staff and in the organisation. It is something that they have sought our reassurance on as well—will we continue to remain focused on that? Nick, the board and I are absolutely focused on that and those broader objectives, so I do not think that there is any change or diminution there. As I say, it is entirely appropriate that we add climate finance to the agenda for CDC, given the impact that that has on the poorest.

Nick O'Donohoe: I would just reinforce what Diana said. CDC has really been on a journey over the last 10 years, starting with an organisation with fewer than 50 people, invested only in funds. The characterisation that you gave was not totally inaccurate.

Mr Bacon: That is very generous. People are not normally that nice about me.

Nick O'Donohoe: We have been on a huge journey. One of the reasons why we were so happy to get some of you into the office was that, hopefully, you got a taste for what Diana was talking about, and for the passion that people at CDC or BII have for development. It really shines through all the time. It has been an enormous cultural shift for the organisation. If you were to ask me what I am proudest of over the last five years, although it started in 2012, from 2017 to 2021 we really accelerated that shift towards an organisation that is really driven by impact.

Mita Samani: I would agree that the journey CDC has been on has been one of more focus on poverty reduction and development. The development thesis behind the new strategy absolutely speaks to that. In my mind, there are three key things that drive the development thesis for the new strategy. One is job creation. We know, from World Bank studies, that high incomes and high-quality jobs are central to poverty reduction, to what CDC continues to do, to its development impact framework, and to why employees get up and go to work at CDC.

The second is economic transformation. Across the FCDO toolkit for poverty reduction, CDC is one of the few instruments doing that at scale—economic transformation through increasing productivity in markets, investing in physical and financial infrastructure, and creating new markets. If you look at CDC's history, it has a really good track record of creating new markets, from tea, coffee or milk in the 1970s and 1980s to the private equity industry in the 2000s and what it is doing now in climate change, renewable energy, adaptation, resilience and off-grid solar.

The final one is climate change—helping the poorest adapt to the effects of climate change, helping mitigation, and helping support biodiversity across the countries it operates in. All three have a very strong poverty reduction narrative running through them.

Q68 **Chair:** Can I pull you on this, then, Mita? Looking at climate change and the poorest people in the world, the most impacted are in Africa, so do you not fear that this shift to the Indo-Pacific and, particularly, the Caribbean is going to take resources away from the poorest people on the planet?

Mita Samani: There are two aspects. First, as Diana said, CDC's commitment to Africa will not reduce. In fact, in absolute terms, it will increase. Secondly, climate is a global problem.

Q69 **Chair:** It is indeed a global problem, but the people suffering most tend to be those particularly in Africa.

Mita Samani: Absolutely, and CDC's role in that, in my view, is mitigation. Doing mitigation at scale in some of the highest emitting countries in the world, many of which happen to be in Asia, benefits the poorest everywhere, given that they are hardest hit by the impacts of climate change. The second is innovation. It is easier to invest in some of the markets in Asia to test innovative solutions to both mitigation and adaptation finance, which can then be translated into Africa. Expanding into the Indo-Pacific offers the opportunities for both.

Chair: Caroline, you were nodding. Do you want to add anything?

Caroline Read: I was agreeing wholeheartedly with Mita.

Q70 **Mrs Latham:** If we are talking about countries that are the highest emitters, maybe we should be investing in America and China. They are the highest emitters. Surely, what is happening is that you are taking money and programmes away from the poorest people in the world and giving them to much wealthier countries. The Maldives is a problem; it is going to disappear. Should we be spending money there? It seems to me that we have skewed the whole reason. We were looking at the places where the poorest people live, but now we are going to much more affluent areas.

Nick O'Donohoe: The big difference between the United States and the sorts of countries where we will be investing is that the United States can afford to address this problem itself, whereas the sorts of countries that we invest in did not cause the problem in the first place and they do not have the wherewithal to invest. Unless development finance institutions are prepared to help them make this transition to a green economy, and willing to help them adapt and become more resilient to climate change, they are the ones that will suffer most from it.

Q71 **Kate Osamor:** I have a few questions on poverty reduction. Nick, your new investment policy defines low-income populations as people living on below $5.50 per day. How did you arrive at that definition?

Nick O'Donohoe: You are right to say that, in our new measurement tool, the way we measure development impact in our new strategy period is to assess each investment against a productivity metric, a sustainability metric and an inclusion metric. We introduced this methodology to you when you were in the office. The inclusion metric includes looking at the beneficiaries of the investment, who, as Mita said, can come through in a number of ways. They can come through jobs, through access to affordable goods and services, or through infrastructure. They will all come through investments that CDC makes in the private sector.

The $5.50 is a score within our scoring system. In deciding what the right number was, we had to try to reconcile two things. On the one hand, we had to reconcile a desire to reach the poorest members of the country; on the other hand, we had to be clear that we need to back sustainable businesses. If you put money into a business that goes out of business, you are not creating any impact.

In trying to find the right balance, we looked at the distribution of income in the various countries in which we invested, with a view to making sure that at least 40% of the poorest people in that country would be benefiting. That is where the $5.50 came from. In Africa, for example, more than 80% of people live on incomes of less than $5.50.

We are trying to find this balance. We recognise that there are lots of great programmes that FCDO runs around cash payments or other humanitarian programmes that reach the poorest of the poor. We have to balance reaching those people, because we are, as Mita said, part of the solution, not the whole solution by any means.

Q72 **Kate Osamor:** Do you agree that the figure you have come to is at great odds with the World Bank's definition of what the poorest people are? It defines them as those who are living on $1.90. The figure you are working towards is much closer to upper middle income countries, so how are you going to square that?

Nick O'Donohoe: As I said, the way you square it is by looking at what audience you need, if you like, to run a sustainable business. I can tell you that, in the eastern DRC, for example, Moyi Power is a project that we are doing for three towns and 500,000 people who have never had access to power at all, other than a few people who have diesel generators. This is a renewables project that will deliver power to those people. In Kenya, through M-KOPA, a million people now have solar panels on their roofs, so they are able to light their homes and charge their mobile phone, and 5 million people have benefited from Cropin's software that helps them manage their crops better.

Q73 **Kate Osamor:** Thank you for your examples, but in every society you will find people who are rich and people who are poor—even where we are now. One of your main jobs is to find and support the poorest, so your definition should be around seeking those people and looking at what they are living on, which is not close to $5.50 but closer to $1.90. In some cases, it is even lower than that, as we know.

Nick O'Donohoe: But surely we should care about those people living on $5.50 anywhere in the world.

Kate Osamor: I am not saying it is a lot of money. Neither is a lot.

Nick O'Donohoe: We are a development finance institution. There is a huge need for support among people who are living on less than $1.90, and the FCDO and the UK do a fantastic job of that, but it is not the only thing that we need to do. We need to help grow these economies, so that more people have a higher standard of living. That has been a precursor to poverty alleviation in every country. I completely understand where you are coming from, but you have to put CDC or BII in the spectrum of the overall development programme.

Q74 **Kate Osamor:** Would you agree with CAFOD's view that you are justifying that amount of money because you are expanding into Asia and the Caribbean, which are middle income countries?

Nick O'Donohoe: No, I am afraid I do not agree with that view. We identified that amount of money, first, because we thought that it represented people who were genuinely poor and, secondly, because we had to reconcile it with what we do, which is making sustainable investments in private companies. That is where that number came from.

Q75 **Kate Osamor:** If I could now move on to Caroline and Mita, how powerful a tool for poverty reduction is investment in the private sector compared with traditional grant aid?

Caroline Read: It is a really powerful tool. As part of our portfolio at FCDO, it is really important to have private sector development and economic growth, for three reasons. First, we all know that the scale of the challenge of meeting the SDGs is in the trillions. Globally, ODA will only ever be in the billions, so we need to mobilise the private sector to help meet that challenge. Reason No. 1 is scale.

Reason No. 2 is sustainability. We know that countries want to be become self-sufficient and to be able to grow out of poverty. The only way of doing that is by having economic growth in the country, and that is a sustainable way of alleviating poverty.

The third reason, which Mita mentioned earlier, is around jobs. At the individual level, the most likely way to come out of poverty is by changing your labour income. For the poor, 95% of their income is labour income. Getting better jobs is how they get out of poverty. It helps them and their families. It is a really important part of our overall portfolio.

Mita Samani: I agree with everything that Caroline said. Building on what Nick said, CDC is an important tool but not the only tool. One of the ways in which it addresses direct poverty is by supporting companies to build the products and services that are required to help people come out of poverty. I am talking about physical infrastructure, financial infrastructure, access to finance, telecoms, access to internet, data and telephones, and access to energy and transport. These are all things that are provided by a thriving private sector that has access to capital at a reasonable cost. They directly impact the poor and their ability to secure jobs and income.

Q76 **Kate Osamor:** Picking up on what you said, Mita, how strong is the evidence that development finance institutions such as CDC, soon to be BII, lead to sustainable development outcomes?

Mita Samani: In its annual review, CDC has published a really strong and compelling case for the impacts that it has achieved year in, year out. More broadly, a recent literature review of the role of development capital in poverty reduction indicates a very strong positive link between poverty reduction and investment. CDC's own recent research shows that increasing investment in Kenya by $10,000 lifts one additional person out of extreme poverty, so there is a direct link between investment and lifting people out of direct poverty.

Q77 **Navendu Mishra:** Nick, there is an argument that the new 2022 to 2026 investment policy strategy dilutes the primary objective of CDC, which is to promote poverty reduction. Do you think that the mismatch that Kate covered between CDC's benchmark of $5.50 and $1.90 strengthens the argument that the primary objective is being diluted by this rebranding and by this new policy?

Nick O'Donohoe: No. Up to now, we have not had this formal scoring system where we look at every investment and score it against inclusivity. If you go back over the last five or 10 years, you will find that that idea of inclusion existed in all the investments we made. Previously, we had a rather crude scoring system that was very geographically focused and focused on jobs, but still pushed us in the direction of the lower income groups in the countries that we are investing in, so there has not been a change.

What has happened is that we have introduced a more formal system. We have to have a benchmark in that system and we have come to the conclusion that $5.50 for development—

Q78 **Navendu Mishra:** So you do not agree that this is evidence that the primary objective is being diluted.

Nick O'Donohoe: No, I do not. It was not like we were working in the last 10 years against a $1.90 number.

Q79 **Navendu Mishra:** I understand that. It is almost three times what the World Bank is suggesting, so there is a significant mismatch there.

Diana Layfield: It might be useful to add here that the World Bank—I think, although I can confirm which international economic institution—said that, in order to have a sustainable escape from poverty, you need to reach $13 a day. So $5.50 is less than 50% of the threshold required to have what they describe as a sustainable escape from poverty.

Navendu Mishra: I would be grateful if you could write to the Committee about this.

Q80 **Chair:** I have a range of quick-fire questions, if I could have quick-fire answers, please. Mita and Caroline, how does FCDO decide how much to invest in CDC/BII annually?

Caroline Read: There are three parts to the investment decision. The first is the strategic allocation of FCDO's overall ODA portfolio. The second is the financial figures we are given from the Treasury. The third is value for money and what money BII, or whatever programme we are talking about, needs to meet its strategy.

We have covered why, in the overall ODA portfolio, we think that economic development, private sector development and BII specifically are really important and a vital part of the portfolio. The Treasury set us figures that we have to live with. One of them is the financial transactions target. It is a type of spending that the Treasury gives us. There are a few options that we have to spend the financial transaction budgets, but BII is the largest of those. We made a decision several years ago to consolidate and build on BII rather than having many platforms to spend financial transactions.

We do a business case, set out the theory of change, what the evidence is and why BII should receive that financing, and match that up with the strategy that BII has put together. Those business cases are published, as are all of our business cases.

Q81 **Chair:** Do you look back year on year and see if they have met all of the targets? Do you audit the value for money? Are there penalties, financial or other, that you bring in?

Caroline Read: We have really good governance arrangements with BII. We have quarterly shareholder meetings, where we run through a range of topics, including the financial performance and the impact performance. We have regular meetings with different committees of BII to assure ourselves that what has been set out in the strategy is being met. We have regular contact with them to make sure that we feel that the strategy is being met.

Q82 **Chair:** In the current financial year, FCDO is injecting £661 million into CDC. Why does CDC require such large and regular investments, if it is also looking to bring a return, albeit a slight one, on its investments?

Caroline Read: With its own capital, it can do a certain amount. In both the last and the next strategy period, we have set really stretching strategies that cannot be done just through self-financing, so it requires capital injection from FCDO.

Mita Samani: Just to add to the first point on how we track, we do an annual review to test the business case and theory of change, and whether we are achieving the objectives we set out. To your point about incentives and whether there are penalties, that is built into the governance. CDC's remuneration framework, which has been agreed and set between the FCDO and the board, has within it, baked into those incentives, incentives to achieve its financial return and its development impact.

On self-financing, just to reiterate what Caroline said, the additional capital is not about ensuring that CDC remains a going concern. You have heard from all of us today that it is a self-financing institution. It is a strategic choice to increase the scale of the institution in order to achieve the impact we talked about earlier.

Q83 **Chair:** Nick, over the past few years, the annual capital investment from DFID or FCDO has ranged between £650 million and £955 million. I wonder how you, as an organisation, cope with those ebbs and flows. What is your strategy for it?

Nick O'Donohoe: We work in very long-term investment cycles and we can tell, with pretty good certainty, a year or two ahead, what our cash deployment needs are going to be, so we manage our promissory note programme consistent with that. If we felt that we were going to have a significant shortfall of capital, we would see that coming a year and a half away, and we would have to adjust our investment pace to reflect that. The time between originating an idea or a transaction and deploying the money can be 18 months to two years.

Q84 **Chair:** Mita, you gave a very specific example. You said that, in Kenya, for every $10,000 invested, it lifts one person out of poverty. That seems quite a lot. I am just thinking about my own constituency, where, if someone can afford to buy a bike or rent an office space, they can afford to go to work. Would you be able to give us a bit more information on where that figure comes from and if that is a baseline that FCDO uses when looking at investment? Would it be possible to write to us?

Diana Layfield: Yes.

Q85 **Mrs Latham:** Nick, how have you assured yourself that your organisation is not crowding out commercial investment when you invest in any businesses in developing countries? How do you demonstrate your additionality?

Nick O'Donohoe: Because we are an ODA institution, it is required that our investments be additional. With every investment that we make, we have to justify our additionality. Additionality is a rather nuanced concept. It is not that, every time you decide to put money into something, you have to go round and find out whether somebody else would do it. It is more of a judgment. It reflects not only financial additionality but what we call value additionality. It is not just about being the only person who will put the money in, but how you will use your influence if you put your money in, in terms of running and growing the company and, hopefully, achieving development impact from the company. We have to justify it on every investment.

You are absolutely right to focus on crowding out because, if development finance institutions are not additional, they distort the capital markets and you end up with less capital flowing into these markets. There is judgment involved, but it is a requirement and something that we have on every investment.

Q86 **Mrs Latham:** When you select projects, it will be easy to select the easy ones, but surely your job should be to select the more problematic rather than, if you like, the low-hanging fruit. How do you know that what you are doing is not the low-hanging fruit?

Nick O'Donohoe: You are exactly right. Climate is a very good example today. In Africa, there is a lot of debt available for renewables projects—solar and wind. There is not a lot of financing available for things like storage, CSP, electric vehicles, panel manufacturing, green hydrogen and green ammonia. These things are all in the next wave of development as we address the climate emergency, so the role of CDC is to be at that frontier, and that is what we try to do. We try not to be in the places where Standard Chartered has decided, "This is commercial enough for us," but to be moving to the next frontier, and climate is a particularly good example of that.

Diana Layfield: It is also worth highlighting that the very compelling part of the new impact measurement framework is that it is not a threshold; it is a scale. When we look at how things are additional, at how they are productive, sustainable and inclusive, or at the impact on gender and inclusion, it is a sliding scale. The team has an incentive to double and triple the impact that they have, rather than focusing on anything else, so it very much guides people towards exactly those difficult situations.

Q87 **Mrs Latham:** How do you co-ordinate with development finance institutions from other countries to confirm whether they or other countries might step in if CDC were not available?

Nick O'Donohoe: We work very closely with the other development finance institutions. In Europe, we are a member of EDFI—the European Development Finance Institutions—and I am on the board of that association. Roughly 50% of the things we do involve at least one other development finance institution, so we are constantly in touch with them. We are working increasingly closely with the US DFC, particularly under the new Administration, and FinDev in Canada. As part of the UK's leadership of the G7, the CDC took the initiative to bring together the G7 DFIs in a more formal collaboration, meeting more regularly so that we can move with the G7 cycles. It is a very important part of what we do.

We are quite unusual among those institutions in that, frankly, we have a greater risk appetite. They are constrained for various reasons, largely because of their own financial structure. They look more like banks, they have credit rating agencies looking over their shoulder and so on. We have the unique benefit of being an investment company, so we can take more risk. We are fortunate that FCDO has allocated us an additional pool of capital, which we call catalyst capital. We tend to be at the forefront of risk-taking among DFIs, but oftentimes a project will need equity, for example, which we can provide, and it will also need debt, which the Germans, the Dutch or others can provide. It is a constant dialogue.

Q88 **Navendu Mishra:** Nick, you may be familiar with DP World, and the issue with P&O Ferries and the 800 British workers who were fired by them. In October 2021, CDC Group announced that it was investing up to $720 million, including an immediate commitment of $320 million, in a partnership with DP World. This is the largest equity investment ever made by CDC and would seem to involve CDC taking a minority stake in a platform that itself controls minority stakes in three DP World ports, in Egypt, Senegal and Somaliland. What is the shareholding and governance structure of the CDC and DP World joint platform? What will the CDC's effective stake in each of the three port developments be?

Nick O'Donohoe: We are very aware of what has happened at P&O. We are aware that DPW is the owner of P&O. To be honest, it is disappointing, because, as you said, we agreed a very large partnership with DP World in the second half of last year.

We have talked to them. DP World, by the way, has about 170 companies that it owns, of which P&O is one. Another one is its interest in the joint venture. What I can tell you—and this is something that we do in every single investment—is that we think that we invest alongside trusted partners, but not everybody always behaves in the way that you would necessarily expect or hope they would.

It is very important for us, as we go into investments, to make sure that we have the right contractual agreements, so that, first of all, the workforce will be treated appropriately. In this particular joint venture, DP World is committed to observing the IFC principles that relate to treatment of the workforce. It is very clear in those performance standards that it has to treat them in a fair and equitable way, and it is very clear that consultation is part of that.

Q89 **Navendu Mishra:** Can I just press you on the shareholding and governance structure in this joint platform?

Nick O'Donohoe: We own a minority of the platform. We have a board on which BII has two representatives. We have a contractual arrangement that governs things exactly like this and exactly what standards will be employed by the company.

Q90 **Navendu Mishra:** That is two board members out of how many in total?

Nick O’Donohoe: I would have to get back to you on the exact board. We are a minority shareholder, so it is a minority position.

Q91 **Navendu Mishra:** Would you be willing to write to the Committee with more detail on this?

Nick O’Donohoe: Yes.

Q92 **Navendu Mishra:** We have talked a lot about poverty reduction and lifting people out of these situations. DP World, as you mentioned, has 170 projects across the world. It is a leader in global supply chain solutions. Do you really think that, had CDC not stepped in with the investment, it would have been unable to find another investment partner?

Nick O’Donohoe: I think it would have had difficulty in finding another investment partner, given that, as you correctly pointed out, these projects are in, for example, Somaliland. There are not a lot of commercial investors that are prepared to invest in Somaliland. We hope this joint venture will undertake a whole range of additional projects in places like the DRC, so some of the poorest countries in Africa, for which it would have been very difficult for it to find commercial capital to partner with.

Q93 **Navendu Mishra:** A partner like DP World would not have been attractive as a company of that size for these projects, had CDC not stepped in.

Nick O’Donohoe: Our capital is extremely important in supporting those projects and encouraging DP World to expand further past just these three projects.

Q94 **Navendu Mishra:** Has CDC formally transferred any funds to DP World or the DP World partnership platform yet?

Nick O’Donohoe: The transaction has closed financially. The funds are being transferred imminently.

Q95 **Chair:** So the funds have not been transferred yet.

Nick O’Donohoe: No, the funds have not been transferred as of today.

Q96 **Chair:** You would be in breach of contract if you did not.

Nick O’Donohoe: Yes, we are contractually obliged to transfer the funds.

Q97 **Chair:** FCDO colleagues, virtually all of the money that you have allocated to CDC this year—nearly £500 million—is, effectively, going to a company that the BEIS Committee and the Transport Committee have both said is not fit for purpose. It is not a fit and proper employer and not something that the Government should be doing business with. How do you feel about the reassurances we have heard, given that all of your investment that is meant to be going into poverty alleviation is going to an organisation that is deemed by this House as not a fit and proper employer?

Caroline Read: First of all, it is not the direct investment that we are putting into that. It is reinvested profits from BII alongside investments.

Q98 **Chair:** But they come to you looking for money and it is almost the same amount that you are giving.

Caroline Read: There are two things to highlight. One is the impact of this project. When it is complete, the impact on the economies of Somaliland, Egypt and others is huge. We must not forget that the point of doing these projects is the impact on poverty. Secondly, we have huge assurances from BII on the standards that it has got DP World to sign up to in this project. We take great comfort that DP World has signed up to these standards.

Q99 **Chair:** Do you believe DP World, when it is quite comfortable to break British law here, when it said that it would not be breaking employment law in other places in the world?

Navendu Mishra: Perhaps other nations have poorer standards.

Caroline Read: We can only take the standards that it has signed up to and assume that it will live up to those standards.

Q100 **Navendu Mishra:** The Government stated, following the P&O announcement, that they are reviewing all Government contracts with DP World. Could FCDO colleagues provide us with details of the review of CDC's DP World partnership and how it is going, if it is going on?

Caroline Read: We can come back to you.

Q101 **Navendu Mishra:** As FCDO is part of the Government, I imagine that it would be reviewing. This Committee has a hard time justifying to some quarters of Parliament the money that goes into ODA. Seeing 800 British workers being sidelined and treated in a disgraceful way, and significant amounts of money being pumped into a disreputable employer, is not a great example. I am just trying to stress that point.

Caroline Read: That is understood, and we will come back to you on the review in due course.

Navendu Mishra: Imminently, I hope.

Caroline Read: Yes.

Q102 **Chair:** Nick, if you had not signed the contract and you knew what you know now about the way that DP World has treated some of its employees, would you still be investing £500 million of taxpayers' money in it?

Nick O'Donohoe: Yes, because, as Caroline said, the impact case is overwhelming. The difference that this will make to people's lives in these countries and in all the other countries that we hope the joint venture will operate in is enormous. As we have already done, I would be making sure that, contractually, the company is obliged to follow what we call the IFC performance standards. It is contractually obliged to follow those.

Chair: I really want you to be right.

Navendu Mishra: It has broken the law in the UK, so it does not fill me—I am not sure about other members of the Committee—with a lot of confidence that it will not do it in parts of the world where perhaps employment law is less strict than the UK.

Nick O'Donohoe: I understand that.

Q103 **Navendu Mishra:** Human Rights Watch has previously been critical of some of the businesses that CDC has invested in and their employment practices. What practical steps are you taking to ensure that these practices do not take place in businesses that British taxpayers invest in?

Nick O'Donohoe: With every business that we invest in, an environmental and social study takes place before our investment. To be fair, the development finance institutions have really been the leaders in imposing these standards. With every business that we invest in, the business signs up to the IFC performance standards. They cover many issues, including land and biodiversity, the treatment of workers, workers' rights, health and safety, making sure that the minimum wage is paid, and ensuring that there will be consultation in the event of retrenchment. Once we sign those, we have redress if they are not upheld.

Q104 **Navendu Mishra:** That covers the businesses. What about the supply chain? What is CDC's position when the business itself may not be exploiting workers but a wider part of the supply chain that it does business with is? Xinjiang and perhaps a couple of other parts of the world are in the spotlight.

Nick O'Donohoe: That is a very good question, and it has been quite topical in reference to Xinjiang and the solar industry. We invest in developers, those developers then buy solar panels from manufacturers, and those manufacturers assemble those panels from supply chains that go around the world. It is a fact that a very significant percentage of solar panels have some element of Chinese manufacturing in the supply chain, and that some of that manufacturing comes from Xinjiang, where there are allegations of human rights abuses. We surfaced that about a year and a half ago.

As a result of that, CDC has played a leading role in bringing together the development finance institutions to think about how we can address it. In our negotiations or discussions with those developers that we are funding to develop solar farms and so on, we have, as much as possible, written into the contracts that they are not permitted to source solar panels from manufacturers based in Xinjiang, but I have to tell you that it is not a perfect solution.

The solution to this issue is development finance being used to increase panel manufacturing in other countries. In the last three months, I have been in Morocco, Egypt and India, and all of those countries have plans to increase panel manufacturing. That is the long-term solution.

Q105 **Navendu Mishra:** When you find a business in breach of these conditions, what action does CDC take? Do you terminate the contract? How do you move forward?

Nick O'Donohoe: We seek redress, which can come in different ways. In some cases, if it is a continuing contract, you can step back from it. In other cases, you have to work through it. One of the reasons why we have board representation is to ensure that this does not happen and to try to change it when it does. It depends on the individual contract in terms of what redress you have and, of course, the individual legal and governance system that you are working in.

Q106 **Mr Sharma:** Nick, what impact has CDC's climate change strategy had on the make-up of its energy portfolio?

Nick O'Donohoe: Today, the energy portfolio at CDC and, indeed, all the investments over the last two to three years have pivoted almost exclusively towards renewable energy. We have invested $1 billion in renewables over the last three years. We have also committed to 30% of our investment commitments going forward being in climate finance. The other 70% will all be in areas that are Paris-aligned.

It has been quite transformational. In our pipeline today, 47% of our new investment proposals are climate finance. It has led us to, as I talked about earlier, trying to push the frontier on climate finance. We are not just doing the easy things but trying to reach out into green hydrogen and ammonia, battery storage, CSP, EV and a whole range of areas. It has been quite transformational within CDC over the last three years in terms of this pivot and this recognition that we really can move the needle on climate finance, particularly in the countries that we are active in.

Q107 **Mr Sharma:** How much does CDC continue to invest in gas-fired power stations? Is that amount declining?

Nick O'Donohoe: It has declined, yes. We have done one gas project in the last three years. We have no immediate plans to do any further gas projects. We have, as you know—we have discussed this with this Committee in the past—left open the option, consistent with Government policy, to invest in gas as a transition fuel as part of the transition towards a green economy, but we have no immediate plans at the moment for any gas projects.

Q108 **Mr Sharma:** What are the barriers to a more rapid move away from fossil fuel investments?

Nick O'Donohoe: We have made a very rapid move away from fossil fuel investments. As I said, there is no immediate plan to make any further investments in gas, and we have specifically ruled out investing in coal, which we did in 2014, and heavy fuel oil, which we did about three years ago.

Q109 **Mr Sharma:** Diana, what importance do you place on rapidly moving away from fossil fuel investments?

Diana Layfield: As Nick said, we have moved and will continue to move away from these. We all have a shared goal of moving away from fossil fuel investments. As Nick said, we have made no coal or HFO investments for many years, so the only small gap that remains is for gas and, as Nick said, we have no immediate plans to invest. I know that the Chair's question, therefore, is going to be why we would not say no. The answer to that is in a phrase from Paris and COP, which is "just transition". There remain situations in some of the poorest countries where renewables are not yet viable. We are working incredibly hard to make sure that they are and will be in the future.

A good example here might be Mozambique, where we made our last gas investment a couple of years ago. Seven out of 10 people in Mozambique have no access to electricity at all. As a country, it has a plan to migrate to clean energy. It has a clear transition plan but it cannot do that without the aid of a transition fuel. The gas station in Temane in Mozambique in which we invested is set up to start on gas but to switch to green fuel as soon as that is available. It is capable of being a transitional element. In the same country, we invested in Cuamba, which is a renewables plus battery storage project. Wherever we can, we are investing in renewables.

Even in 2017 to 2020, 3% of our commitments were in fossil fuels. Already in that period, 17% were in renewables, which is six times the level and, as Nick says, we have no immediate plans. The only reason for not categorically ruling it out—which, by the way, would be the easiest thing for us to do; we have our own trajectory to net zero—is to make sure that we can fulfil both parts of the phrase "just transition".

Q110 **Mr Sharma:** Thank you very much for your response, but it is a bit vague. Let me put it to you straight: what date will you set for exiting these fuel investments?

Diana Layfield: If we knew the point at which renewables would be perfectly viable across all of the poorest areas of the world, I would be delighted to set that date. We do not have that information yet. We keep trying to define when that will be. I am very aware that I will be fielding questions on this until we do and it is definitely, as I say, in our interests to define that. The only reason we are not now categorically ruling out that option is that there may be other critical projects that are viable for development and for helping countries through that transition. That is the only reason why we are not being categorical now.

Chair: I would just like you to be bolder. You have just come in as chair. You have an amazing track record. You have five years ahead to make a real difference. You have the plan in place. It would put such a statement out to the rest of the investment world and the rest of the development world if you were able to set a date and say, "We are aiming for this." We get that you might not meet that, but, unless you put a line in the sand, it always gets pushed back as being too difficult. I hear what you are saying.

Q111 **Mrs Latham:** Nick, to what extent do you view investment decisions through a gender lens?

Nick O'Donohoe: That is the other significant evolution of our investment policy as we go into the new five-year period. We have an explicit target for gender-lens investing of 25% of our investments. Again, that does not mean that the other 75% are not looked at from a gender perspective when we are going into them. CDC was a founder of the 2X challenge at the Canadian G20 meeting about four years ago. That brought together the DFI community. At that time, we talked about investing a total of $3 billion in women-led businesses. That number turned out to be more like $6 billion to $7 billion, and the new target is $15 billion.

Importantly, what it also did, aside from moving money, was to create a set of standards, which we call the 2X standards. Those are the standards by which we judge the investments that we make. The 2X standards look at the ownership of the company and whether it is majority owned by women. They look at the board of the company to assess whether there is a significant number of women on the board. They look at the management to see whether it is gender-balanced. They look at the workforce. They look at what products the company is producing. All of those set a standard by which we decide whether an investment is 2X-qualified.

There is no doubt that there is a huge opportunity, frankly, to support women-owned businesses. It is why, for example, we announced a financing with First Bank of Nigeria about a couple of months ago, where we specifically earmarked 30% of the financing to go to women-owned businesses, which is something that the bank had never done before. Those are the sorts of things that we can do, working in partnership.

Q112 **Mrs Latham:** What is the average number of women on boards?

Nick O'Donohoe: From a 2X perspective, the minimum is 30%. In terms of the percentage, I would have to come back to you with that number. Do you mean the percentage of our companies today?

Mrs Latham: Yes, the companies you invest in.

Nick O'Donohoe: I would have to come back to you with that data, if we have it.

Q113 **Mrs Latham:** It would also be quite interesting to have the information on how many women are employed in those companies, and in which countries the companies are based. I am interested in seeing whether there is a variation there.

You say that you invest in women and girls in business. Which women-led projects would you say have been most and least successful?

Nick O'Donohoe: The one that I mentioned just now with First Bank of Nigeria is a very good example. It is a specific financing, directed at making sure that a significant part of that money goes to women-owned businesses. We are still an active investor in microfinance, and last year invested in a company called Kashf in Pakistan. A significant majority of its clients are women. Those are two examples.

Q114 **Mrs Latham:** How successful were those investments? In other words, how long did those businesses last?

Nick O'Donohoe: Both are relatively recent, so they are still going concerns. One of the advantages of having a clear set of 2X standards is that it will allow us to go back and get that sort of information. As you know, significant academic research around the world has suggested that women-owned businesses perform, from a financial perspective, substantially better than those owned by men. In terms of us providing data on that, having a set of standards will help us enormously to do that in the future.

Q115 **Mrs Latham:** How do you measure the impact in this particular area? Do you audit the impacts of your investments?

Nick O'Donohoe: As I said, we have incorporated the 2X standards into our development impact scoring system.

Q116 **Mrs Latham:** When did that start?

Nick O'Donohoe: That started at the beginning of this year.

Mrs Latham: So it is very recent.

Nick O'Donohoe: Yes.

Mrs Latham: Before that, you did not do anything.

Nick O'Donohoe: Before that, we did not have ex-post measurement of the impact of our investments. One of the key elements of the new scoring system is that it will have ex-post measurement of our investments. Starting two years after we have made the investment, we will be looking back and seeing whether it performed against the targets that we set.

Q117 **Mrs Latham:** You have spoken glowingly about this system, but what did you do before? Presumably, you did not invest in women-led businesses. You did not encourage women and girls into business. You did not encourage people to have women board members. You did not look at it through a gender lens at all.

Nick O'Donohoe: That is not entirely fair. If you go back to the strategy that was launched in 2017, there were three key areas at the time that we identified as being cross-cutting themes in all our investments. One was climate, one was job quality, and the other one was gender. It takes quite a substantial amount of time to implement changes in an investment process, but the 2X challenge, for example, came out of that commitment by CDC to focus more on women-owned businesses. In terms of measurement, you need to have data to look at trends over time, and that is something that you cannot have unless you have clear standards, so it is evolving.

Q118 **Mrs Latham:** Did you say 2015 or 2017?

Nick O'Donohoe: I meant to say 2017—the last strategy.

Q119 **Mrs Latham:** That is five years. I know that we have had covid and that you said it takes a long time, but in a woman's or a girl's life and opportunity, that is a very long time. It has taken a long time, so are you going to try to push that agenda further? You say that they are successful, so they should be good investments.

Nick O'Donohoe: Yes, I agree that providing data on the success of the investments, and particularly in this case those that have a gender lens, is important.

Diana Layfield: This is a journey. CDC, and now BII, is showing real leadership here in the 2X phase. It is an area that the world has focused on insufficiently in the past. I can give you absolute assurance that we will continue to focus on it. In addition to the fact that every single investment we now make is looked at against a gender lens, we also have a 25% target for specific gender finance allocation, which is a really big step forward. The CDC board is majority female now, which is entirely a testament to Graham, rather than anyone else, and it is absolutely top of people's minds and we will be continuing to track and focus on this.

Q120 **Chair:** Aren't gender finance projects only 3% of your overall investment, though?

Nick O'Donohoe: The target is 25%.

Q121 **Chair:** No, I mean what it currently is. I thought that women-led projects were only 3% of your investment.

Nick O'Donohoe: We have not gone back in time, which is really very difficult to do, to try to establish whether, at the time we invested in things, they would have qualified.

Chair: It would be interesting now if you could get a baseline to see if you have been successful going forward with your ambitions.

Q122 **Mr Bacon:** Over the weekend, I was reading *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, which I did not realise, because

I bought it 10 years ago, is now a classic. It talks about institutions being the single biggest criterion determining success from failure and how, in particular, institutions encourage prosperity, create positive feedback loops and prevent the efforts by elites to undermine them. What do you do, if anything, to invest in institutions in lower and middle income countries?

Nick O'Donohoe: When you say "institutions", you mean—

Mr Bacon: I mean, in the same way that they do, the intermediate institutions of civil society and Governments that ensure clean governance.

Nick O'Donohoe: Our remit is to invest in private companies.

Caroline Read: BII is part of our toolkit, alongside other programmes, particularly centres of expertise. We are establishing centres of expertise in the economic space, which will work with institutions and the private sector to develop institutions in those countries in order to make sure that they are ready to accept private sector investment.

Q123 **Mr Bacon:** Could you write to us with more detail?

Caroline Read: I can. This type of thing will be in the international development strategy, which will be due out in the spring.

Mr Bacon: Spring is now.

Mrs Latham: No, it is summer—it is British summer time now.

Q124 **Chair:** Before we get into the definition of spring, which we know has been a two-year-long feast so far, thank you all very much for your time. I do want to come back with one final ask. The Committee has made it very clear that we are not comfortable with the near £500 million invested in DP World. I hear your assurances around contractual law, but I wonder if you will be actively monitoring its employment practices. Could you also let the Committee know in writing what recourse you have if it fails to engage properly in appropriate employment practices?

Nick O'Donohoe: Absolutely.

Chair: Thank you very much. I appreciate it.