



Select Committee on International Relations and Defence

Corrected oral evidence: The UK and Sub-Saharan Africa—prosperity, peace and development co-operation

Wednesday 11 March 2020

10.40 am

Watch the meeting

Members present: Baroness Anelay of St Johns (The Chair); Lord Alton of Liverpool; Baroness Blackstone; Lord Grocott; Baroness Fall; Lord Hannay of Chiswick; Lord Mendelsohn; Baroness Rawlings; Baroness Smith of Newnham.

Evidence Session No. 9

Heard in Public

Questions 82 - 88

Witnesses

I: Colin Buckley, General Counsel and Head of External Affairs, CDC Group; Peter Maila, Investment Director, Africa Coverage Team, CDC Group.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Colin Buckley and Peter Maila.

Q82 The Chair: Good morning. This morning I welcome to the Select Committee on International Relations and Defence Colin Buckley, General Counsel and Head Of External Affairs, CDC Group, and Peter Maila, Investment Director, Africa Coverage Team, CDC Group. As ever, with all those who come to give their expertise to us, I remind you that this is a public record and a transcript is being taken.

Thank you for agreeing to share your expertise in our inquiry into the UK and sub-Saharan Africa—peace, prosperity and development. I shall ask the opening question and then turn to colleagues to ask more detailed questions. Since both of you come from the same organisation, you might prefer that we leave it to you to decide as each question is asked who answers it. It may be that only one will answer rather than both, but I defer to you to make that decision.

To start with the overarching question, what have been the major economic trends and challenges facing countries in sub-Saharan Africa over the past decade?

Colin Buckley: Let me start out by saying that it is a pleasure to be here to share our experience in Africa in this very important inquiry.

Inclusive economic growth is essential to achieving the SDGs.¹ To give a sense of the scale of where we are starting from in Africa, Kenya's GDP is approximately the size of Glasgow's; Ghana's is approximately the size of Liverpool's; and Ethiopia's is approximately about the size of that of Leeds. While we have relatively small economies, we have a growing need: 20 million new jobs will need to be created annually in sub-Saharan Africa to satisfy the growing labour force there.

Although there has been a lot of talk about SDGs, in some sense the commitment to African inclusive economic growth has been falling. In part, that is because of economic headwinds. Real GDP growth for the region decreased from 2.4% in 2018 to about 2% in 2019 according to the Economist Intelligence Unit, but the real challenge has been the reduction in available capital. About 10 global banks have cut back their operations in Africa due to tighter regulations around risk and money laundering. The private equity market in Africa reached a peak in about 2014-15 and has been declining since. To give a sense of the scale of that decline, we have moved from approximately \$4.5 billion in fundraising in 2015 to about \$2.7 billion in 2018.

There are bright spots on the continent. We should not fall into the trap of describing Africa as a homogeneous whole. There have been areas of economic growth in east Africa and there have been some very promising reforms in Ethiopia and Rwanda. We could break down the African economic growth story into two parts. The first is about resource-

¹ The Sustainable Development Goals

intensive countries such as South Africa and Zambia that have suffered from lower commodity prices. There are countries in east Africa that have experienced GDP growth of about 5%, but overall capital has reduced in Africa.

Africa always remains subject to a variety of potential limits that may affect future growth. Climate change will probably be disproportionately felt on the continent. There are health challenges, traditionally Ebola, but now potentially coronavirus. There have always been issues around corruption and insecurity. The coming year has political uncertainty as well, as we face elections in Ethiopia and Tanzania.

Throughout all of that, CDC will maintain its commitment to Africa, which has been constant since 1948 when we were founded. Over the last two years, we have invested £1.5 billion in Africa and over the next two years we predict that we will invest £2 billion more. I feel confident that, regardless of the economic headwinds and challenges that Africa might face, CDC will be there as a constant partner in its quest for inclusive growth.

The Chair: I always check whether the other expert witness wishes to say anything. If not, I shall pass to a supplementary.

Peter Maila: We can take your questions.

Lord Hannay of Chiswick: You did not mention trade at all. Could you comment on the extent to which you believe that the very modest amount of trade between African countries is part of the cause of the shortfall in growth to which you referred? To what extent do you think that the African Union's objective of an AU free trade area would be part of the solution to the problem? I am not talking about outside trade, because that is substantially in extractive industries. Could you comment on those two trade-related issues?

Colin Buckley: I am a financier and not an economist, so I caveat everything with that. However, from the position of a financial institution, one of the challenges we have always faced in African countries is the size of the existing businesses; I am sure we will come back to that. To give some sense of it, in the UK there are over 15,000 businesses with revenue of over £50 million a year; in Ethiopia, there are only around 15.

Part of that is a result of the size of their markets. Even in large countries such as DRC, the actual available market for a business to grow is quite small. A regional approach that lets businesses more easily expand their markets beyond their national borders would be welcomed by us as a financial institution; it would give us the opportunity to increase the scale of the businesses in which we invest. I understand that there are a lot of economic benefits as well. I defer to the economist as better suited to talk about them than I. Peter, do you want to add from Africa?

Peter Maila: Absolutely. Thank you for the invitation. With regard to trade specifically, as Colin mentioned, we look at the size of the

businesses. The majority are not even small and medium-sized enterprises; they are micro-SMEs. In trying to tackle the problems or challenges facing small and medium enterprises, CDC has come up with what we call the intermediated model. We work with financial partners. We have partnered with several banks across Africa. Earlier this year, we announced that we had committed to nearly \$75 million of trade finance facilities with Absa, which is one of the largest financial services groups across Africa. It operates in 12 African countries and has over 42,000 employees.

What is the benefit of that? How do we see CDC's capital being utilised? We encourage Absa, BMCE and the banks we have partnered with to channel our capital to provide finance to small and medium enterprises. Those are small enterprises and businesses in rural areas. Some of those banks have a national footprint which enables them to reach them at the point of sale; they can speak to them in the local language and explain the credit and financial risks they are taking and how to manage them. The intermediated model we are utilising enables us to get capital to small and medium enterprises.

On trade and your specific reference to the African Union, all the stats show that Africa does not trade with itself due to historical reasons. We hope to be able to encourage free trade between multiple countries and within their borders, and, hopefully, small and medium enterprises, through the CDC intermediated model, could benefit and to acquire inventory and buy vehicles and trucks to enable trade.

Q83 Baroness Blackstone: Can you tell us what you see as the role of investment in reducing poverty, and what you see as the balance between development aid and investment in this area?

Colin Buckley: Here I feel a little more confident in the economics. The academic consensus is that inclusive economic growth is the best way to defeat poverty. No country has left poverty behind without a thriving private sector. Across 100 regressions, the one consistent factor that shows up as significant in economic growth is investment. For example, research by the Overseas Development Institute, which I think has given evidence to you, found that investments by DFIs² are statistically associated with higher income and labour productivity in Africa. The scale is the same as it would be if you provided grant aid, or higher than that, the difference being that for DFIs you get the money back and you can make the investment again. CDC aims for impact at both firm level—poverty reduction through job creation—and market level by increasing and improving market efficiencies.

One of the principal links between investment and poverty reduction is jobs and job growth. Over the next 10 years, 1 billion young people will enter the job market in our investment markets³. As we have already mentioned, Africa simply has too many informal or small businesses. We

² Development finance institutions

³ Africa and South Asia

need to be able to transform those small businesses into larger ones that are engines of job growth. Tackling that requires investment. The gap in investment for small and medium enterprises in Africa is estimated to be about \$330 billion. That is money that small enterprises could absorb now to grow the scale of their operations.

We appreciate that the links between investment and poverty reduction are not as simple as talking just about jobs. Increasingly, we are trying to get learnings from our portfolio about how our investments affect poverty reduction in ways other than job creation. I will talk about a few of those that are interesting.

In 2019, we did a number of what are called lean data studies, which are very quick inquiries into the operations of businesses using some simple metrics. In this case, we were looking at who purchased the services of the businesses we were investing in. We knew that we were always concentrating on jobs, but when we looked at the buyers of those services we found that many of them were extremely poor. Of the 14 companies that we looked at, 28% were living below relative poverty and 10% were below the extreme poverty line of \$1.90 a day. Critically, our businesses were providing services at a significant discount and significantly lower cost to those poor people.

One example is businesses that sell home solar systems to generate energy for families not connected to the grid. The scale of the savings from some of these systems can be estimated by the effect on Kenyan smallholder farmers. When they switched from diesel to solar irrigation, they saved on average \$676 a year. If you compare that with \$1.90 a day, you have some notion of the poverty reduction capacity of those types of investments.

On the question about how we fit into the aid budget, you need different tools to meet the requirements of the SDGs. We are always aware of the fact that we are just one part of the tool chest the UK Government have at their disposal. We represent about 8% of ODA spend each year. I think we play an important role and that is why I feel so proud to work at CDC, but I recognise that we will never replace humanitarian assistance and the effort to grow public education and public health systems. Frankly, we will not even be able to lead the charge in improving business environments and economic reforms, but we feel that we play a significant and supportive role in the whole of the UK Government's offer.

Baroness Blackstone: You have made a very convincing case for the role of investment in poverty reduction, but it is often said that the benefits of economic growth in Africa very rarely reach those who are living in extreme poverty. Development aid will be more appropriate for the social policy areas of health and education, but how can steps be taken to get to the really poor when there is economic growth, rather than nearly all of it benefiting higher-income people and sometimes the very rich?

Colin Buckley: We do it in a variety of ways. I referred to going for small and medium enterprises in the work we do through intermediated structures. That is intended to go to the smallest of the businesses. At the same time, we make very large investments in infrastructure and power. We did a study of our investments in power in Uganda, which we had always known were powerful drivers of job creation. We created over 200,000 employment opportunities in Uganda through our energy investments, but what we did not know was that we reduced the cost of energy on average for all users in the country by about 10%. When you address things such as infrastructure and transportation, the economic effects are felt across the country. I have chosen two outliers: the enormous \$100 million investments in infrastructure and the tiny investments that we make in the smallest businesses.

Peter spoke about our trade finance facility. Last year, through our trade finance facility, we made a loan of \$5.47 to a small business. That is the scale we can stretch over. In the middle, there are any number of investments we make that can be felt by the very poor. We invest in MedAccess, which reduces the cost of malaria nets by 40%. They are overwhelmingly used by the poorest portions of countries. We invest to try to reduce supplies that are used by smallholder farmers.

To sum up, every time we make an investment we challenge ourselves on the impact rationale for doing it. Part of that challenge is who will benefit. We clearly do not want to make investments that benefit the wealthiest, who have access to capital. We want to make investments the benefits of which are felt in the very lowest income cohorts of the economy.

Q84 **Lord Alton of Liverpool:** Can I take you to the 2018 announcement by the British Government that they were developing new strategies for Africa? Can you give us an assessment of what you make of those strategies, and how you in the CDC have adapted and focused your efforts as a result of them? What difference has it made to you?

Colin Buckley: We welcome the strategy. We always welcome anything that identifies Africa as a target of interest to the UK Government, in part because Africa has been so much part of our history. I referred to the period of 70 years. We began investing in Kenya in 1948. We invested in Malawi in 1949 and we invested in Ghana in the 1950s. We have always been committed to Africa. Our second chairman, Lord Reith, famously said that our job was to do good without losing money in Africa. That continues. Today, we are the largest bilateral DFI investor in Africa. I think we are recognised as particularly expert in Africa.

We think about our strategies in five-year cycles. Right now, we are in the middle of a five-year cycle that focuses on doing the hardest things in the hardest places. That means we have been investing about 60% of our capital in sub-Saharan Africa and 40% in south Asia. We have been focusing on certain strategic priorities: climate change, women's empowerment, job quality, skills and leadership.

Since 2018, in a reflection of the announced strategy, there has been a step up in our activity as part of the Government's efforts. One step up is financial. Theresa May announced that CDC would invest £3.5 billion in Africa by 2022. I think she did that in 2018. It was a significant challenge to us as an organisation to build up the operational ability to do that amount of investing. As I said, we have done £1.5 billion over the past two years and we plan to do £2 billion to satisfy that challenge. Some of it has been operational. We have opened more country offices to increase our presence in the country. We have opened offices in Kenya, Nigeria and Ethiopia. Finally, I think we have done a better job of co-operating with the broader HMG effort. We have worked more closely with the FCO,⁴ the DIT⁵ and BEIS⁶ in country, as well as here in London.

Lord Alton of Liverpool: Perhaps Peter could add to that. In Africa itself has there been a material change as a result of the pronouncements of 2018?

Peter Maila: From our side, we received a positive reception from Africa itself. Our Chief Executive travelled with the Prime Minister during her trip to Africa. We have seen growth on the ground and calls to engage with CDC, with the help of the UK Government on the ground and with DfID⁷ and DIT officers here in London, who have been able to send us several leads for investment opportunities. Earlier this year, the UK-Africa Investment Summit was another successful joint effort where CDC felt it was part of one team as UK HMG, with colleagues from UK Export Finance, the DIT, DfID and business growth; all of us were approaching African opportunities.

We are now feeling more confident in being able to invest capital from British taxpayers, given the resources not only within CDC but at multiple touchpoints. Colin has already mentioned that we are putting offices on the ground. More new hires by CDC will be deployed on the ground in African markets to have closer proximity to our markets and our clients. They understand the local dynamics, local nuances and local markets, because that is very critical in making an investment decision.

We have been encouraged since 2018. I think the UK-Africa Investment Summit was a showcase not only for the CDC, but for UK HMG acting together as a team in what we will be able to build.

Q85 **Baroness Rawlings:** Following your very clear introduction, how does the CDC Group measure the impact of its investments? Can you give some specific examples? Under the 1999 Act, when it was changed, the Government hold a golden share, if I remember correctly. Does that impede any of your investments at all?

Colin Buckley: I will take the second part first and then talk about impact. The Government holds a golden share, but that does not in any

⁴ The Foreign and Commonwealth Office

⁵⁵ The Department for International Trade

⁶ The Department for Business, Energy and Industrial Strategy

⁷⁷ The Department for International Development

way impede our operations because we are 100% owned by the Government. In effect, 100% of one class of shares are owned by DfID and the Treasury Solicitor owns one golden share. That was set up in anticipation of a potential public/private partnership at the time of the Act. The partnership never came to fruition, so, frankly, it is now a technicality. I give you great respect for identifying it. There are probably only 12 people who know about the golden share and you are one of them, so that is fantastic.

The story about impact is perhaps a little more complicated. I will talk a little about the theory of it and Peter will talk about some practical examples. When we entered the most recent five-year strategic cycle, we adopted a new impact framework. When we looked around for international best practice, we chose to adopt the Impact Management Project, which started here in London and now has hundreds of people signed up to it, principally in the impact investment space, which is where we found the most innovative thinking around impact. On top of the Impact Management Project, we have aligned with the nine operating principles for impact management adopted and announced at the World Bank meetings last spring.

In essence, we measure impact in three ways: at the level of individual investments; at the level of sectors; and across our entire portfolio. Every investment we make links its impact to the SDGs. Every investment sets itself a challenge—an impact thesis—of what it is intended to achieve. It expresses that by saying what it will do, who will benefit from it, how much it will contribute and the risks of failure. We then aggregate those investments on a sector basis to tell a richer story about impact across seven significant sectors that we have identified.

Each of those sectors now has a strategy that proposes a way that CDC can best achieve impact across the sector. Each sector has its own group of impact metrics that measure whether we are having the sectoral impact we hoped for. Finally, we take all our investments and tell a story that stretches across the whole portfolio. Across the whole portfolio we measure jobs created, taxes raised and the amount of other investment we have mobilised. Those are only three metrics, but we think they are very powerful. They are metrics that we have chosen not to change over the last eight years so that we can tell a consistent story about our effectiveness over time.

An important part of impact is learning from what we have done. Under this strategy cycle, DfID has wisely provided us with a fund of £20 million to finance independent evaluations of the investments we have made and the impact we have achieved. Separately from that, we have done sectoral and thematic evaluations. We did an evaluation of mobilisation with the Harvard Business School; we did a piece on the health sector with Imperial College; and we have done them on energy provision and SME finance. Together, our hope is that that gives a very nuanced picture of the impact CDC can have not only on individual investments, where the impact can be very heterogeneous, but so that we can tell a coherent

story about the sectors we operate in and keep ourselves honest through those high-level indicators that we track over time.

Peter Maila: Colin mentioned the questions of who, what we do and how we impact. Taking development impact, as Colin mentioned, on our side it could be on climate change and the people we are investing in. I give the example of Miro Forestry. There is growing demand in west Africa for forestry and there has been deforestation. At the current rate of tree-felling by the private sector it is estimated that within 25 years Ghana will have no trees. If you look at it from a commercial point of view, when you cultivate the land, plant a seed and wait for a eucalyptus tree to grow, it will take 10 or 15 years. A private party with capital to invest and wait for 10 or 15 years tends not to be available in those sectors. CDC, along with Finnfund and other development finance institutions, has provided capital to Miro Forestry. That is point one on addressing the climate change impact.

What is the impact of forestry for people in Sierra Leone and Ghana? The company employs around 1,500 people. Initially, in rural parts of Sierra Leone they were not even employed and were living at a level below \$1. When we did a study of the impact for people working for Miro, we found that the employees support the livelihood of between three and seven people per family. It creates jobs, which is good, but there is an indirect impact by Miro on 10,000 people. The impacts are not only on those who have jobs.

As for other things we do that have an impact, we have a portfolio company in Owendo, a port in Gabon. We have provided capital for training women to go into factory jobs. Skills are changing in the way economies are being run. We have piloted a scheme to train 50 women to take jobs in factories. What kinds of jobs or training are they doing that can be measured? Within CDC, we try to measure the output for everything we do.

Those 50 women are being trained to take jobs. To take one example, they are trained to drive specialised vehicles, such as forklifts. Historically, those kinds of jobs were reserved for males. Now those women are qualified to work at the port. Those are things where we are able to look at our impact. We look at it from the point of view of climate change and developing the skills of people on the ground.

Lord Hannay of Chiswick: Can you say whether the Government consulted you about whom to invite to the January UK-Africa Investment Summit? I confess that I spent last week in Liberia. The Liberians were extremely irritated that they had not been invited, despite their desire to be invited and despite the fact that inward investment is one of the things they most desperately need.

Colin Buckley: We worked very closely with government on the UK-Africa Investment Summit. We helped to bring some participants to the Summit. I do not think we were offered the chance to comment on the entirety of the planned event.

Q86 Baroness Fall: You touched on the metrics or evaluation of what you do beyond the actual financial investment. To what extent does your investment support the development of labour standards and human rights where you invest? Do you have a metric, initial assessment or code of practice that you follow, or do you assess it as you go along?

Colin Buckley: It is a mixture of the two. We start with our Code of Responsible Investing, which brings together international best practices. It includes the IFC Performance Standards; the International Labour Organization Core Conventions; the UN Guiding Principles on Business and Human Rights; the World Bank Group Environmental Health and Safety Guidelines; the Smart Campaign requirements around consumer protection; and the UK Modern Slavery Act. When we look at a potential investment we need to assure ourselves that the business complies with those international best practices.

If a company falls short of those, but we feel that it is committed to coming into compliance, we will work with it on what we call an action plan, which we design at the time of investment. That sets out the steps the company has to take to come into compliance. We do not leave companies alone to do that. We are known as a very hands-on investor. Some of the things that we do to help them come into compliance include workshops. In Lagos earlier this year, we ran a workshop for about 100 fund managers and outlined how they could better address environmental standards. We have available free on our website an Environmental, Social and Governance toolkit that can be used by any investee. This year, we are going to begin to offer workshops for investee companies on social and human rights.

That is principally the way we assure ourselves that the businesses we invest in comply with the standards. We look at each of our investments at least twice a year. Part of that monitoring will include questioning where they stand on the action plan and whether they are on track to comply with it. We have a large and expert environmental and social governance team that spends a lot of time in the field working with businesses to bring them into compliance.

The Chair: Mr Maila, is there anything you want to add?

Peter Maila: It was well covered.

Baroness Blackstone: Are there some countries where you have decided not to operate and invest because of a failure to adhere to international standards on either labour or human rights?

Colin Buckley: Our standards are independent of national standards. In a country that has standards lower than our requirements, or a country that basically has no standards at all, we are still willing to invest in a business if that business agrees to comply with the international standards we have. In fact, we welcome those businesses because we recognise them as the standard-setters in the country. They are likely to

raise the bar not only for their business but, we hope, for all the businesses in their sector.

Lord Alton of Liverpool: On the specific question about standards, you referred to both labour standards and the modern-day slavery legislation, and you may have seen a report in yesterday's *Guardian* concerning cobalt mines in DRC. There have been previous reports that maybe as many as 36,000 children are used in those mines. Yesterday, Auguste Mutombo, a Congolese human rights activist, said he was forced to flee the country with his family after being linked to a law suit accusing the world's largest tech companies—Apple, Google, Tesla, Microsoft and Dell—of being complicit in the deaths of children in cobalt mines in DRC. What can CDC do to ensure that supply chains and specific clients and customers of yours are not complicit in these things? If you do not have the answer to that today, would it be possible for you to write to the Committee about that specific set of circumstances?

Colin Buckley: I am quite happy to speak about it in general. I start with the recognition that CDC does not invest in certain industries, the extractive industry being one of them. You have made a very powerful argument for why we do not do it.

If I can move from the particular to the more general, there is a real challenge about improving not only the businesses we invest in but the supply chain backwards. The place where we have been forward leaning on this is around modern slavery. We authored a guide on the UK Modern Slavery Act and how to implement it overseas that has been distributed throughout HMG. A large part of it talks about how to work with businesses to go down the supply chain and start to ensure that it complies with the Modern Slavery Act. We have done similar things with large retail businesses, making sure that they use ethical practices in the products they source to sell. We have worked in the textile industry to make sure that it ethically sources cotton, fabrics and so forth. That is a large part of what we do.

Q87 **Lord Grocott:** To what extent is climate change a factor in CDC's investment decisions? You dealt with part of it, Peter, in your answer about deforestation and how that might be dealt with. Are there any other examples? Maybe you could generalise a bit about the significance of climate change in investment decisions, but any specific examples would be most useful.

Peter Maila: Beyond forestry, another sector where we have committed capital and a lot of resources in the past few years is renewable energy. In the developed world, the renewable energy space is an alternative use of power. In Africa, it can be the first time that a household has been connected to power.

Africa is home to over 1 billion people, and 600 million do not have access to electricity. That has a lot of ramifications—for example, the ability of children to do homework and even simply doing business, because there is no electricity or computers. We have invested in a

company called M-KOPA in East Africa, which provides solar units for homes. They are put on the roof and can power basic things such as cell phones, cooking stoves and radios for a family to be able to function with basic utilities. The impact on those families—over 700,000 of them—is that children are able to have light to do their homework.

In Egypt, we are partnered with and have invested in a company called Arinna Solar Power based in Benban Solar Park, near Aswan. It is part of a major project identified by the Government of Egypt called the Nubian Suns programme. In the end, it will comprise 13 solar projects. It is estimated that, when complete, the entire Benbar Solar Park will be the largest solar power installation in the world, with capacity of up to 1.65 gigawatts. Therefore, at both household and industrial level we are able to participate to address climate change. In Africa, we are addressing the first connection of power to the household.

Q88 Lord Mendelsohn: Thank you very much for coming. You are part of a very important change in CDC's mission. I confess that the most unhappy time in my entire professional career was when I worked for CDC in 2004 at the time of the split and the creation of Actis. I thought what happened was almost a criminal offence in how the Government were foolish enough to agree with the plundering of the institution. The Mitchell reforms were a really important reset in all of that, because the point you make is absolutely true. You have to find places for long-term patient capital. There is no example where a country can escape poverty without a vibrant private sector, and it is important to get investment across the piece, small and large companies, to ensure job growth.

I want to probe you a bit on how far you have gone with some of those changes. The Mitchell reforms were an attempt to try to reduce some of the incentives for both intermediaries and others to siphon off resources. The transition has been a rocky period. A number of things you have done have made a difference, including direct equity, debt and other financial instruments, but there is still concern that there is quite a long tail of stuff and it is taking a bit too long. I hope you do not mind if I probe some of those issues and the mechanisms you have used.

There is a question about the use of private equity companies. At the UK-Africa Investment Summit, 25% of what you announced were investments in private equity companies. There have been tremendous concerns about private equity companies in Africa and who the ultimate shareholders are. There has not been a trickle-down effect. We had an incident where one of the investing companies had their CEO arrested for embezzlement I think in London in April last year. That still remains a tremendous concern. The 2019 Independent Commission for Aid Impact gave CDC an amber/red for its lack of progress in some of the changes that it had to make.

Why is it taking so long to reach those objectives? Is private equity still going to be 25% of the portfolio? CDC is the largest private equity investor in Africa. It is not clear that private equity actually has the outcomes that people expect. While CDC is a very important part of what

we want to achieve in this country through DFI, is it the only economic actor that we should be considering, and is there a case for others that would be complementary, or would help the UK effort, and that could work with you? Finally, will any of DfID's \$20 million to evaluate impact be made available for people to do completely independent evaluations of what you do?

The Chair: That is rather a lot for our last question. Perhaps you could decide whether one of you has time to tackle all of it or whether you share it between you.

Colin Buckley: I will take a shot at it in reverse order, because some of the questions are easy. The \$20 million is available for independent evaluations. The decision about who gets funded is made by a panel on which CDC has only one seat. It includes economists from DfID and independents who have been selected by DfID.

As to whether there is space for other economic actors, the more the merrier. The UK Government are to be commended for coming at the issue of inclusive economic growth through a variety of institutions. Some of those are international institutions; some are based here in London, such as PIDG⁸ and GuarantCo.⁹ BEIS has been doing work on climate finance, which is wonderful. We are a little bit humble. We are not going to do everything, so we welcome multiple actors.

Let me go to the main question, which, if I understand it, is about private equity funds and their use by CDC. Although we still use private equity funds, we use them in a fundamentally different way from the way they were used at the time Andrew Mitchell set us the challenge of doing the hardest things in the hardest places.

The story about why we use private equity funds today starts with the recognition that I made about small and medium enterprises. For the purposes of efficiency in shepherding UK taxpayer's money well, the minimum size of direct investment that we can make from London is about \$20 million. For us, an investment fund is a local team; it is a team largely in Africa of African professionals who come together and believe they have insights into their country and markets about the small businesses to which they can allocate capital. Twenty-five per cent of the investments made by investment funds made in 2018 were less than \$1 million; since 2012 about 50% of the investments made by CDC investment funds were for less than \$5 million. They are doing something manifestly different. Without investment funds and banks, we would not be able to reach the small and medium enterprises and micro-enterprises that at the moment largely make up the economies that we talked about.

⁸ The Private Infrastructure Development Group. PIDG is an innovative finance organisation funded by the governments of the UK, the Netherlands, Switzerland, Australia, Sweden, Germany and the International Finance Corporation.

⁹ GuarantCo provides local currency guarantees for infrastructure financing in Africa and south and south-east Asia and dollar-denominated guarantees in fragile and conflict-affected states.

I finish by echoing the point I made at the beginning of my testimony. The big change between Andrew Mitchell's day and today is that we are in the middle of capital flight from Africa, and the capital flight is precisely the institutions that could deliver capital to smaller and medium-sized enterprises. Banks are shutting up their retail operations; private equity is largely fleeing Africa. The private equity that is leaving Africa is in the form of the large global firms that I think you referred to and which made up a much larger portion of our investing 10 years ago than they do today. We remain strong proponents of the use of investment funds. We believe that you have to choose the right investment funds to invest that capital.

The Chair: Mr Maila, is there anything you would like to add?

Peter Maila: It is also about looking at what financial instruments could be used in those markets. For example, take someone starting a business in Côte d'Ivoire or Liberia. They go to a bank and say, "I have no track record of revenue or any profit. I am going to start a greenfield business and build something new." The bank will say, "When you have got an asset, land or a building, and revenues, we will be able to give you a loan and take security against that." From that point, he is a small business man looking for between \$1 million and \$5 million. Given the current available financial instruments in Africa for debt, he will not be able to get capital, so that is the first challenge.

Investment managers are people on the ground who can see a gap in terms of capital. If they were to provide someone with equity, they could start their business and the business would grow over time. When it comes to CDC being able to touch from London a small or medium enterprise, we believe that local people who speak the local language and understand the local dynamics are well suited to be investment managers.

I have one example of a successful model. Fifteen years ago, Helios, which was one of the investment funds we invested in, started a new company called Helios Towers, to build mobile telephone towers around Africa. It was a great firm, but there was no way a bank would give it capital. It was the first time that had been done in Africa. You can imagine the number of challenges the company faced, but, partly because it used equity capital, today that business is a success and is listed on the London Stock Exchange.

It is about looking at it from the ground and asking: what is the mode of CDC's capital? We challenged the investment manager and said, "Why should we as CDC use British taxpayers' money to provide you with capital? What are you going to do differently?" Most of the time it is providing capital where there is not even commercial capital available to fund the businesses. That is one of the examples.

We back several funds that target small and medium enterprises. One of the things we look at for those funds is local knowledge, insight and ability to speak the local language, and connecting the dots so that there

is a point of distribution in the market. That is another way of looking at them to decide how available they are. Are they having an impact? Are they able to operate to environmental and social standards? Do they adhere to the CDC code of governance? Those are the things that we measure in investment managers. It is not just providing them with capital and that is all. On a consistent quarterly and annual basis, we audit them and check how far they are in their progress so that they can help us achieve our mandate, which is poverty alleviation and job creation.

The Chair: Thank you for that extensive reply to an extensive question. It is an important one on which to end this session. I give formal thanks to Mr Maila and Mr Buckley for their contributions and end this public part of the session. Thank you very much indeed.