

Public Accounts Committee

Oral evidence: Oversight of the Private Infrastructure Development Group, HC 675

Wednesday 15 October 2014

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Members present: Margaret Hodge (Chair); Guto Bebb; Mr Richard Bacon; Guto Bebb; Mr David Burrowes; Chris Heaton-Harris; Mr Stewart Jackson; Mrs Anne McGuire; Austin Mitchell; Stephen Phillips; Nick Smith

Sir Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Assistant Auditor General, Joe Perkins, Director, Regulation, Consumers and Competition, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Mark Lowcock, Permanent Secretary, Department for International Development (DFID), David Kennedy, DG Economic Development, DFID, and Philippe Valahu, Executive Director, Programme Management Unit, Private Infrastructure Development Group (PIDG), gave evidence.

Q1 Chair: Welcome. May I just establish some facts with Mr Valahu? If we go through the resources that you will have received from DFID from 2002 to 2015—the end of the spending review period—you either will have received or will be due to receive £860 million. Is that correct?

Philippe Valahu: It is, yes.

Q2 Chair: It is correct—nearly £1 billion. Mr Lowcock, it is your job as accounting officer to assure that there are no possibilities of fraud and corruption when you follow that money. That is correct, isn't it?

Mark Lowcock: Yes. It is my job to make sure we are satisfied that the PIDG has an overall set of systems that guard against fraud and corruption. That is my job.

Q3 Chair: It would be your job to ensure that we have no fraud and corruption in the use of that money.

Mark Lowcock: Yes, that is a key thing I do. I am reliant, obviously, on the systems that the institution puts in place, but I am absolutely focused on that.

Q4 Chair: And also it is your job to try to ensure that the money helps the world's poorest people.

Mark Lowcock: Yes.

Q5 Chair: And would you agree that when you use the private sector to deliver aid to the poorest people and to ensure no fraud and corruption, it is ever more important that you are vigilant?

Mark Lowcock: Yes.

Q6 Chair: Okay. May I raise two separate issues? I will start with the first one, which is the very convoluted relationship between PIDG and Emerging Capital Partners. Mr Valahu, would you like to try to explain to the Committee—I will do it if you cannot—what PIDG's relationship with Emerging Capital Partners is?

Philippe Valahu: Thank you, Madam Chair. Your question, if I understand it correctly, is about the relationship between the PIDG—the donors in particular—and the Emerging Africa Infrastructure Fund.

Q7 Chair: Say that again. You are going to have to speak up because this is a very bad room for acoustics.

Philippe Valahu: Sorry. If I understood the question correctly, you are asking about the relationship between the PIDG donors and the Emerging Africa Infrastructure Fund.

Q8 Chair: No. I am asking about the relationship between the organisation of which you are the chief executive, PIDG, and what I assume is a company—it is either a company or a partnership—called Emerging Capital Partners.

Mark Lowcock: Chair, if I may, as far as I am aware there is not a relationship between PIDG and ECP. I am aware of ECP, because it is, or in the past has been, a fund manager of CDC. I will check for you, Chair, if I may, but I am not aware of there being a relationship between PIDG and ECP.

Q9 Chair: This is why I asked you about the issue of vigilance, Mr Lowcock, because my understanding is that PIDG and two of its facilities or companies from which money goes out, Emerging Africa Infrastructure Fund and GuarantCo, are managed by something called—I have had to draw a picture because it is so bloody complicated—Frontier Markets Fund Managers Limited, or FMFML. My understanding is that your money, particularly for those two funds—well, all of your money—is managed by that organisation.

Philippe Valahu: Yes. FMFML is the fund manager for the Emerging Africa Infrastructure Fund and GuarantCo.

Q10 Chair: And for anything else in relation to PIDG?

Philippe Valahu: No.

Q11 Chair: More than 80% of the money PIDG gets is our money, just to make that clear—it was more than 88% in 2013. So it is just those two. My understanding is that FMFML is jointly owned by three things, one of which is an organisation called EMP Africa, which was spun off in 2005 to form Emerging Capital Partners. In effect, FMFML, our money going through PIDG, is being managed by Emerging Capital Partners—if everybody understands ECP, I will use that. That is right, in part.

Philippe Valahu: The EMP that you referred to was a shareholder in the past and FMFML is no longer the owner of FMFML. Following a procurement that took place in 2013, it is owned by Harith.

Q12 Chair: I understand that. I was going to come to that. Let's take it until 2013. ECP was taken over in 2013. We have been giving money to you since 2002. Until 2013 we probably gave half a billion and, give or take a bit, we are going to give you nearly a billion by the time we finish. ECP is being investigated by the Serious Fraud Office, isn't it? There is a man called James Ibori at ECP. What is he?

Mark Lowcock: James Ibori is a former governor of a state in Nigeria, who is now in prison.

Q13 Chair: In Britain.

Mark Lowcock: In Britain, yes.

Q14 Chair: Did he run ECP or was he a shareholder or a part-owner?

Mark Lowcock: He was certainly related to ECP. I cannot remember exactly what the relationship was. I am familiar with the matter because ECP was a fund in which CDC had investments.

Q15 Chair: Yes, but the problem is that it is a fund in which PIDG had money. Did you know that, Mr Lowcock?

Mark Lowcock: I didn't know that, I'm afraid.

Chair: Shouldn't you have known that? Anyway, this guy is in prison.

Q16 Nick Smith: Can we just go back? Mr Lowcock, you talked about the gangster's involvement with ECP. You said there was a relationship. What did you mean by that?

Mark Lowcock: I may need to write to you with more details because I have not refreshed my memory on the matter. There was a parliamentary ombudsman report that looked at part of this, which I think was published last year. A man called Dotun Oloko raised a whistleblower case—I think it was in 2009 or 2010—with some concerns about ECP. We made a mistake in the Department by inadvertently allowing his name to be released. Andrew Mitchell apologised for that at the time.

The ombudsman did a report that confirmed we had made a mistake. She asked us to make a payment of £2,000 to Mr Oloko, which we have done. We have, in parallel, looked at the allegations that Mr Oloko made, as have the NAO and the Financial Services Authority. There are a series of things ongoing that—

Q17 Nick Smith: This just feels off the point. I am still trying to discover what the relationship is between the gangster who is in a British jail for money laundering, and ECP, which has received British taxpayers' money. What did you mean by "relationship"?

Mark Lowcock: I need to check exactly what the relationship was. He was convicted, through a prosecution brought by a unit that we finance at the City of London police, for stealing large amounts of Nigerian taxpayers' money. He was said to have a relationship, the precise details of which I am really sorry that I cannot remember, with the company ECP to which the Chair referred.

Q18 Chair: I will help you. I think he was a part-owner or a shareholder. The SFO is investigating him further after a lot of pressure from various people, and the British CPS is trying to recover funds from him, and yet we are giving him more money through this very circuitous route.

Mark Lowcock: I am not—

Q19 Chair: Were you not even aware of that? Do you feel comfortable with it, Mr Lowcock?

Mark Lowcock: No, I don't. As far as I understand, there is no relationship between—

Q20 Mr Bacon: You said at the beginning that there is no relationship between PIDG and Emerging Capital Partners. Now, Mr Valahu, we need to get down to some very simple brass tacks. You are the chief executive of PIDG. Is that right?

Philippe Valahu: I am the executive director of the programme management unit, which sits between the donors and the facilities themselves.

Q21 Mr Bacon: Okay. Are you aware of a relationship between PIDG and Emerging Capital Partners?

Philippe Valahu: I joined PIDG nine months ago, so I am not fully aware of the past shareholding.

Q22 Mr Bacon: I was not asking you when you joined. You are now an employee. I have been a Member of Parliament for 13 years, but I am aware of things that happened in Parliament before then. I am really asking you about the relationship, if there is one—Mr Lowcock seems to think there isn't—between PIDG and Emerging Capital Partners. Are you saying that there is no relationship between them, that there is a relationship, or that there might be, but you don't know?

Philippe Valahu: No, there is no relationship today.

Chair: No, there isn't. There isn't because Emerging Capital Partners has now been sold on. There was a relationship. Ask the question, was there a relationship in 2013? We will come on to who they have sold it to.

Q23 Mr Bacon: Right. Has there been a relationship?

Philippe Valahu: As I understand it, yes.

Q24 Mr Bacon: And can you describe the nature of the relationship that existed, of which Mr Lowcock was unaware?

Philippe Valahu: The only thing that I know is that they were a part shareholder of FMFML, which was the fund manager to the two in the '70s.

Q25 Mr Bacon: Hang on, slow down again. FMFML is the fund manager for the Emerging Africa Infrastructure Fund and for GuarantCo. That is what we have got from what was said earlier. This is certainly going too fast for me and I am sure it is going too fast for many viewers.

My question was about the relationship that existed at some point in the past between PIDG and Emerging Capital Partners. Can you describe the relationship that existed, even if it doesn't any longer, which Mr Lowcock appears to have been unaware of, between PIDG and Emerging Capital Partners?

Philippe Valahu: I am afraid I do not have the details for that.

Q26 Mr Bacon: So you knew that there was a relationship, but you do not know about the details of it?

Philippe Valahu: I do not, no.

Q27 Mr Bacon: Even though you are the executive director of the programme management unit in charge of the relationship between the donors? Can you just repeat what you said about your function?

Philippe Valahu: The programme management unit sits between the donors and the various facilities. We are the secretariat that acts on behalf of the donors and that acts as an interface between the donors and the various—

Q28 Mr Bacon: And the various facilities. When I worked in a bank a facility was a loan, but what do you mean by “facility”?

Philippe Valahu: I mean the eight or nine companies that operate under the Private Infrastructure Development Group.

Q29 Stephen Phillips: Let me deal with it this way. PIDG is, or was, an investor in the Emerging Africa Infrastructure Fund. Is that correct, Mr Valahu?

Philippe Valahu: It is, yes.

Q30 Stephen Phillips: Who is that fund managed by now?

Philippe Valahu: The Emerging Africa Infrastructure Fund is managed by FMFML, which itself has been owned by Harith since the fall of last year.

Q31 Stephen Phillips: Previously, and this is the relationship I want to suggest to you, FMFML was jointly owned by a number of organisations, including the Standard Bank group, but one of those was known as EMP Africa. Is that correct?

Philippe Valahu: Yes.

Q32 Stephen Phillips: And EMP Africa is what became Emerging Capital Partners—that is also right, isn't it?

Philippe Valahu: Yes.

Q33 Stephen Phillips: That is the nature of the relationship. You are invested in a fund that was managed by a fund manager that was jointly owned by an organisation known as Emerging Capital Partners. Correct?

Philippe Valahu: Yes.

Q34 Stephen Phillips: Emerging Capital Partners was one of the companies that was alleged to be embroiled in Mr Ibori's wrongdoing. Is that also correct? Perhaps Mr Lowcock can answer that because you are aware of it from your experience with the debacle over CDC group, aren't you?

Mark Lowcock: Yes. My understanding is, and I will correct this if it is wrong, that Mr Ibori was involved in Notore, which was a Nigerian fertiliser company that ECP, which you referred to, invested in. Mr Ibori was not a shareholder in ECP.

Q35 Stephen Phillips: No. He basically siphoned the money out of ECP into a company from which he has derived significant personal benefit. That is no doubt the nature of the allegation, correct?

Mark Lowcock: My understanding of why Mr Ibori is in prison is that he was convicted of stealing money from the Government of Nigeria.

Chair: Mr Lowcock, if there is a guy in prison and there are further investigations by the SFO and the CPS is after him to try to get assets out of him because he has stolen money and we do not know that we are giving taxpayer's money to an organisation with a circuitous link to him, that is of massive public concern. What really worries me is that you never knew about it. You knew about the CDC stuff, but you did not think to even ask if it was happening here.

Q36 Mrs McGuire: May I ask you to qualify Mr Ibori's status in our prisons at the moment? You said your understanding was that he had been charged with offences relating to Nigeria, so why is he here and not in Nigeria? Perhaps I am naive in this respect, but I ask merely for clarification.

Mark Lowcock: A prosecution was brought by the City of London Police, which has an international remit that the Department for International Development finances. The result of the prosecution was that Mr Ibori was convicted and the penalty he was given was to serve a prison sentence in the UK. There was collaboration between the Government of Nigeria and the Government of the UK in the preparation and the run-up to the prosecution.

Q37 Stephen Phillips: Because two prosecutions had previously failed in Nigeria.

Mrs McGuire: Thank you for that clarification.

Q38 Stephen Phillips: For the record, you nodded, but the answer is yes.

Mark Lowcock: I believe that is the case. Again, I would have to check on the precise facts, but I believe that that is the case.

Q39 Stephen Phillips: I think that what the Committee is concerned about—without wishing to usurp Mrs Hodge's role—is whether either the Department or PIDG were aware at any stage of the role of Mr Ibori in the distribution of funds provided by the UK taxpayer, particularly given that the first set of charges were laid against him in Nigeria in 2007.

Mark Lowcock: I am more familiar with the issues in respect of the link between Mr Ibori and ECP as a fund manager for CDC. As I said earlier, I was not previously aware of any link with any company that has a relationship as a fund manager with PIDG.

Q40 Mr Bacon: Why not?

Mark Lowcock: I am not in a position to answer that, Mr Bacon.

Q41 Chair: This is £840 million. It is such a lot of money. There is a real duty on the Department to ensure where that money goes. I think you have failed in your duty, Mr Lowcock. I am sorry. I usually praise your Department, but in this instance you have failed in your duty.

FMFML has just been sold to Harith. Is that correct?

Philippe Valahu: It is.

Q42 Chair: Did you know about that, Mr Lowcock, given that they were the fund managers for our money?

Mark Lowcock: I personally was not aware of that.

Q43 Chair: Mr Kennedy, what is your job?

David Kennedy: Director general of economic development.

Q44 Chair: Did you know about that?

David Kennedy: I did not.

Q45 Mr Bacon: When the Government enter into a PFI contract with a provider to provide a school, hospital or prison, although the companies often end up being sold on, there is pretty much always a clause that says the authority that has issued the contract must give its consent to the sale of the company. It certainly must be informed about the sale of the company.

You have given taxpayers' money to be managed by one of these fund managers. Let us leave aside for a moment the question of whether this model of giving taxpayers' money to fund managers to manage in this way is a good one; I expect we will come on to that. If you are giving substantial amounts of taxpayers' money to a fund manager to manage, I do not understand how you cannot automatically know whether the beneficial ownership of the fund manager changes hands. Would it not be written into the contract that you would automatically know and be informed?

Mark Lowcock: The contract is let by PIDG, which is owned by nine Governments.

Mr Bacon: That does not alter the point.

Chair: We have over 80%.

Mr Bacon: You are contracting the Governments of the other eight countries involved. Presumably you have a contract with PIDG, which then goes on to have a contract with fund managers. At each stage in changes in ownership of this kind—if a fund manager changes hands—that should be disclosed automatically. Is that not stated in each of the contracts at each level?

Mark Lowcock: I am not sure.

Mr Bacon: You are nodding, Mr Valahu.

Q46 Chair: Somebody behind you is saying, “We knew.”

Philippe Valahu: If I may, information on any such purchase or sale would indeed be made available to everyone.

Q47 Mr Bacon: To everyone? Automatically?

Philippe Valahu: It would be a transparent process.

Q48 Chair: The official behind you, Mr Lowcock—to get the record straight—says that the Department did know. I am assuming that the person behind you is an official.

Can I ask you this about Harith? Harith’s value, its ethos and mission, and what it is trying to do is stated as, “Africa is the last frontier of emerging markets to achieve superior returns for risk capital.” Do you think it is appropriate that a company that specialises in maximising returns for risk capital should be receiving UK taxpayers’ money intended to help the world’s poorest?

Mark Lowcock: The role that the fund manager plays in respect of PIDG, which I am assuming is not the only thing the company does, is to deliver the goals that the countries that own the PIDG set for it. Those goals are to bring private capital alongside public capital to build factories, ferries and ports.

Q49 Chair: We understand that. Take it that we have read. The point is that this is a company that has taken over running our money, using our money that was intended for the world’s poorest. The company’s aim is to see this as “the last frontier of emerging markets to achieve superior returns”. You did know. The Department representative behind you did know. Should you not have a view about the nature and ethos of a company in which you are putting our taxpayers’ money that was intended to help the world’s poorest? What it really wants to do is maximise profit rather than help the poorest.

Mark Lowcock: What we need to have a view about is whether, in the work they are doing for the PIDG, they are fulfilling the mandate they were given. We do think that it should be profitable for private investors to construct infrastructure in Africa. We think that all the required infrastructure can’t be paid for from local taxes or aid. Of course we don’t want them to run—

Chair: We agree with that. Everybody agrees with that. We have dealt with them on tax issues, which we will come to in a minute. We have dealt with them on other issues. This is not a

company that believes it should try to make deals with other private sector companies to encourage private investment in infrastructure. We all agree and buy into that. This is a company whose ethos is seeing Africa as “the last frontier to achieve superior returns”. That is very different.

I am going to Austin and then I want to come back on another issue.

Q50 Austin Mitchell: I’m a simple-minded Yorkshireman who is getting confused by all these acronyms that are like alphabet soup, but can smell something funny and thinks you all look fairly shifty about this issue. Emerging Capital Partners handles an Africa Fund II, in which DFID is a major investor. Is that right?

Mark Lowcock: I believe that is a CDC fund.

Q51 Austin Mitchell: Africa Fund II invested in three companies—Notore, a fertiliser company; OandO, an oil company; and Intercontinental Bank—that were all involved in money laundering for Mr James Ibori, now currently in prison.

DFID was alerted to the allegations of potential corruption. Up until then you had accepted Emerging Capital Partners’ untested and unsubstantiated assurances that there were no illegal connections between the companies and Mr Ibori. You had accepted—or thought—that all was well. In February 2009 you were notified of potential corruption by Nigerian anti-corruption campaigner Dotun Oloko, but you took no action on that until December 2013. That was after a concerted public campaign had been run against the situation. Finally, after that you passed allegations to the Serious Fraud Office. What took you so long? Why were you deceived for so long?

Mark Lowcock: When we took delivery in 2010 of Mr Oloko’s concerns we asked CDC to investigate them and we also sought some advice from the NAO and the Financial Services Authority. We then took delivery of some subsequent concerns from Mr Oloko and I met him at his request to discuss them. We have passed, at his request, the material to the appropriate authorities, who, so far as I am aware, continue to investigate them.

Austin Mitchell: No sense of smell or anything? Nothing wrong?

Chair: You should have known about it. Let me go on to what PIDG is actually investing in, which is another issue raised through this.

Q52 Stephen Phillips: Before you do, I just want to ask Mr Lowcock one question. At the very least we have ended up with this position, haven’t we? The Department is funding PIDG or was at the relevant time. Correct?

Mark Lowcock: Yes.

Stephen Phillips: So the Department is funding PIDG to the tune of several hundred million pounds. PIDG is funding a programme managed by an entity one of whose owners we now know is alleged to have been involved with Ibori. Just assume that that is correct. The real question is this. Given that you have so many hundreds of millions of pounds of DFID money engaged, there may or may not be some problem with the link with Ibori. Surely it is something that with proper oversight

within the Department, the Department should have known about at the time that this money was being invested between 2010 and now. Why have you come to this Committee unaware of it even today?

Mark Lowcock: So far as I am aware, Mr Ibori was not a shareholder in ECP which had the 10% shareholding in the company before the current company that owned PMFML. I have some familiarity, as I have said, with—

Q53 Stephen Phillips: Forgive me, Mr Lowcock. You are on a different point. You are on the point about whether it is right or wrong. All I am saying to you is that there is a sniff of suspicion, which all of the Committee have got, associated with all of this. The Department has several hundred million pounds of taxpayer funds, which we are about to come on to, invested with Mr Valahu and the Department did not know about this. To my mind it shows a stunning lack of oversight and care with public money. What is your response to that?

Mark Lowcock: My response, as I said earlier, is that I was not aware of any link between Mr Ibori and PIDG.

Q54 Stephen Phillips: That is the point.

Mark Lowcock: I am not sure how direct that link is. That is something that I clearly need to pursue.

Q55 Stephen Phillips: That also does not matter.

Mark Lowcock: Well, I have a separate interest, which I have been exercising to the best of my ability, to pursue other allegations in respect of Mr Ibori.

Q56 Stephen Phillips: Through CDC, which we know all about.

Mark Lowcock: I have been working as hard as I can for some years on that case.

Q57 Chair: But this is not just several hundred million. This is up to £840 million. It is a lot of money. I have two other areas. I hope the Committee will bear with me. The next area is where PIDG is putting its money. What has been raised with me—perhaps you can answer this one, Mr Valahu—is that you have put over \$1 million of equity investment and a €6 million loan into a company called Aldwych Holdings Corporate Finance which develops independent power plants in Africa. Is that correct?

Philippe Valahu: Yes.

Q58 Chair: Okay. Again we have a complicated little map of Aldwych's connections. Aldwych is a joint partner with a company called Azura-Edo IPP, but the sponsor and co-equity partner is Amaya Capital. Is that right?

Philippe Valahu: Yes.

Q59 Chair: And Amaya Capital is registered in Mauritius—we shall come to Mauritius in a minute—which is in effect a very low tax jurisdiction, if not a tax haven. It is a shell company there. And there is a subsidiary of Amaya Capital also registered there, which is called Seven Energy Ltd. Is that correct?

Philippe Valahu: As I understand it, yes.

Q60 Chair: Okay. And it is also correct, is it not, that Seven Energy has been named by Lamido Sanusi, former Governor of the Central Bank of Nigeria, in his recent investigation into the looting of Nigerian oil revenues? In his view, in the 19 months between January '12 and July '13, almost \$50 billion of revenues that should have gone to the Federal Government are unaccounted for. Is that correct?

Philippe Valahu: I am afraid I don't know, Madam Chair.

Q61 Chair: Well, I assume it is not incorrect. So again, we are left with the question of what on earth you are doing investing in a venture with such direct links, through this complicated network of shell companies, with a company which is being investigated in Nigeria for looting Nigerian oil revenues. What are you doing that for? Why? This is our money. It is supposed to be going to help poor people. Again, we haven't got any proof of anything going wrong, but it looks to me like a highly dodgy investment. I wouldn't do it.

Mr Bacon: Why are you doing it?

Philippe Valahu: My understanding was that the investment was made into Aldwych proper, who would then be acting as a developer in developing deals themselves in the energy sector.

Q62 Mr Bacon: How much money?

Philippe Valahu: As I recall, it is \$6 million—€6 million in debt and \$1 million in equity.

Q63 Mr Bacon: Mr Lowcock, do you think that the parliamentary ombudsman was right when she raised concerns that this model of investment, where you give the money to fund managers, who then manage it for you, restricts your ability to exercise proper oversight?

Mark Lowcock: I don't remember her saying exactly that. The Government thinks it is a good idea to invest through, for example, CDC and PIDG to bring capital in to help build infrastructure across the poorest countries. So the Government does think that basic model is a good model.

Mr Bacon: My question is about oversight. My question was whether you think this model restricts your oversight unduly.

Mark Lowcock: I think that on the basis, as the Report says, that PIDG finances projects with good development returns and good financial returns, which so far have provided services to more than 100 million people in poor and difficult environments, with most of the money coming from the private sector and 200,000 jobs created, and large contributions in taxes and other benefits to the fiscal situation in the relevant set of countries, I do think that this is an important part of the Government's overall approach to economic development because—

Mr Bacon: Hang on just a minute, because that is an interesting answer but it bears no relation to my question. My question was about oversight and your answer was about benefits. Could you answer my question about oversight and whether you think this model unduly restricts DFID's oversight of taxpayers' money?

Mark Lowcock: No, I don't think that.

Q64 Mr Bacon: So it's okay not to know about what's going on. Because it was perfectly obvious from your answers to Mr Phillips that you didn't know what was going on. Are you saying that that's okay as long as there are some benefits?

Mark Lowcock: No. I don't think your second question follows from my answer to your first question. I think it's important that we—all the donors—have a proper relationship with the PIDG or with the World Bank or with whoever else we are working through. It is important that they have a set of systems and processes which catch problems when they arise. But I don't think it follows that we should have micro-level control over every single thing that a multilateral institution does. That does not, in my opinion, follow.

Q65 Mr Burrowes: In December last year—we will come on to this, the TradeMark Southern Africa programme—when you came before the International Development Committee, the Secretary of State said that you and she “blamed poor management and lack of credible scrutiny by the department. Both accepted that the external auditors, Deloitte, relied too much on the success stories given to them by programme managers.” Are we not seeing a similar story here? The NAO Report in paragraph 2.14 says: “Board members rely on the knowledge of the managers they are holding to account. Boards rarely visit projects on the ground...Board discussions and papers focused on financial issues. There was little discussion of development impacts...managers sometimes played a more active role” in board meetings “than we would expect”. Is this not the same systemic issue of relying on the programme managers, with lack of oversight and care?

Mark Lowcock: The Department was culpable in respect of TradeMark Southern Africa, and the Secretary of State and I gave evidence to the International Development Committee on that. We directly managed that programme and we did a poor job of it. We have subsequently closed the programme. The PIDG and other multilaterals are actually a different thing. We are making a choice there to operate not directly but in concert with other Governments through shared institutions. There, it is more appropriate to have a different approach to the oversight than it is when we are directly managing the project.

Q66 Chair: But Mr Lowcock, the Independent Commission on Aid Impact, which we all welcomed, assessed your £1.2 billion private sector development programme and concluded that it “performs relatively poorly overall against ICAI's criteria for effectiveness and value for money.” You

are not just getting criticism on that instance, or from us today: the organisation you have set up to look at the impact of aid is also critical of your performance. Is that not right? That was in April 2014.

Mark Lowcock: The Secretary of State—

Chair: Is that right?

Mark Lowcock: You have given a fair summary of what their report said. The Secretary of State gave a response to that report, which reiterated the Government's view that supporting economic development is important to promote jobs and incomes and help countries become less reliant on aid. The Secretary of State continues to think this is a very important area for the Department's work, both through supporting multilateral organisations and through what we do bilaterally.

Q67 Chair: No one is questioning the importance of the work. Everybody thinks it is important work. The issue is the oversight.

Stephen Phillips: Obviously you have accepted—when you gave evidence to the International Development Committee—that in relation to TradeMark Southern Africa the Department was at fault. The Department there had direct oversight. In relation to the delivery of interventions in developing countries delivered through organisations like the PIDG; you have much less oversight because those are private bodies that are taking public funds from the United Kingdom and other donor Governments, marrying them with private funds and investing in those projects. You have less oversight in relation to those projects than you do in relation to, for example, TradeMark Southern Africa—that is correct, isn't it?

Mark Lowcock: Yes. That was sort of my answer to Mr Bacon. If you decide to do things jointly with other countries and you hire or build an organisation to do it for you, you are buying into the proposition that sometimes it is better to have one entity take responsibilities on for a group of Governments.

Q68 Stephen Phillips: You are hoping for better results, but accepting the fact that you are going to have a lesser role in oversight, yes?

Mark Lowcock: Yes.

Q69 Stephen Phillips: That may or may not be right, and we can debate that; but the UK Government is ploughing in 80% of the budget of the PIDG, isn't it?

Mark Lowcock: 70%.

Q70 Stephen Phillips: All right, 70% to 80%. Yet we rank equally with all the other donor Governments in having voting rights, don't we?

Mark Lowcock: Yes.

Q71 Stephen Phillips: So, if this is a decent mechanism for delivering interventions in developing countries, why don't we just take our 80% and do it on our own, so that we have control, without letting a number of other Governments stick in 20% and say, "We also have control, and by the way we get all the soft power benefits of seeing our aid labels below our national flags all over the projects being delivered overseas"—why don't we just do it ourselves?

Mark Lowcock: Because we would like to encourage other donors to put more in than they are doing at the moment.

Q72 Austin Mitchell: But they aren't.

Mark Lowcock: Well, three or four additional donors have joined over the past two or three years. I believe that the Government of Norway has announced an intention to join, and they are talking about two or three other countries who are going to join as well. Mr Phillips, we share your view that we need to reduce the UK burden share.

Stephen Phillips: I'm sorry, could you say that again?

Mark Lowcock: We need to reduce the share of the bill in PIDG—I am sorry to use the jargon—that the UK pays. What that involves is trying to give more and more—

Q73 Stephen Phillips: In circumstances where you made a business case just two years ago to ramp it up to £700 million over three years?

Mark Lowcock: The £700 million is actually now over six years, I think. Because PIDG, as the report says, delivers good financial returns and good development returns, our proposition to lots of our donors is, "You should put more money into this."

Q74 Stephen Phillips: No, I want to go back. You said that the view of the Department is that the UK should essentially reduce the share of money it gives to PIDG. Is that correct? When did that policy come about? Is it a view within the Department, is it a policy that the Government have announced, or is it your personal view? I do not remember it ever having been announced to Parliament.

Mark Lowcock: As we have, as you say, taken a growing share over the past two or three years, this issue has been more prominent in our minds. That is why we have been encouraging PIDG to bring other donors in.

Q75 Stephen Phillips: Why should they? You have given them a blank cheque.

Mark Lowcock: I don't follow that.

Q76 Mrs McGuire: I am just wondering whether we are not talking slightly at cross-purposes here. Maybe I am giving you the benefit of the doubt, but do you mean that you want to grow the

pot of money, which means that we as a Parliament and you as a Government are still going to put in the same amount of money, but the pot of money will grow because of the extra donors? Is that what you are intending to say? It is not very clear, frankly.

Mark Lowcock: I am sorry if that is not clear. Yes, we would like the pot of money to grow. We have up to £700 million available. I think that £300 million to £400 million of that has been released so far, but whether we release the remainder depends on value-for-money issues going into the future. We are trying to bring more money from others so that the pot grows.

Q77 Mrs McGuire: Not necessarily to reduce the amount of money that DFID puts in to PIDG.

Mark Lowcock: Not necessarily, so long as the value for money continues to be justifiable.

Q78 Mrs McGuire: Albeit with all the caveats about value for money. Can I ask Mr Valahu what exactly PIDG has done over the past two to three years to broaden and deepen the donor base? I appreciate that you are fairly new in post.

Philippe Valahu: There have been discussions on the public and private sector sides. On the public sector side, there are donors in Asia with whom we have had preliminary discussions.

Q79 Mrs McGuire: Have you seen the colour of their money yet?

Philippe Valahu: No, because we have only had preliminary discussions. In part, those discussions will not go further until we have from each of the companies proper business plans towards the end of the year that we can scrutinise and analyse, so as to understand better their capital requirements in the medium to long term. That then helps us to have a better discussion with those donors with whom we have had preliminary discussions. On the private side, some pension funds have expressed an interest, albeit a preliminary one, in participating in some of the companies.

Q80 Mr Bacon: I do not understand how, when you are having a conversation with these various different countries—Australia, Switzerland, Germany, the Netherlands—

Mrs McGuire: You know your flags, don't you?

Mr Bacon: Yes. I do not understand how you can end up in a place where, as paragraph 1.27 states: "By December 2013, DFID's total funding of £414 million represented 70 per cent of all contributions to date...In the last two years, DFID provided 88 per cent of in-year contributions to PIDG." When you are sitting around with the Germans, the Australians, the Swedes and the Swiss, how does the conversation go? They say, "I know. We five or six countries will fund 12% between all of us, which is 2% or 3% each, and you can fund 88%." You reply, "Yes, that sounds reasonable." How does that happen?

Mark Lowcock: Each country makes its own choice about how much overall to fund and into which facility. The Swiss aid programme gives a larger share of its total budget to PIDG than we do. For them, this is quite an important vehicle.

Q81 Mr Bacon: Yes, but there are some large countries, such as Australia and Germany, that are also in this.

Mark Lowcock: Yes, and the conversation goes, “We think that PIDG is providing benefits”—as the Report says—“and the projects are successful. Don’t you think it would be a good idea to do more of this? Having a small proportion of public money with a lot of private money is the most effective way of dealing with the infrastructure gap in these countries, which is one of the things we need to do if we are to enable them to grow faster, create more jobs and be less reliant on aid.” It is the case that the Australians and the Germans have some of their own institutions that they can use. It is also the case that there are some other new institutions. The World Bank, for example, is creating a global infrastructure facility. So donors have choice about where to put their money. Mr Valahu and his colleagues will have to work very hard to get a bigger share of the total available money from the other donors, and we want to help them to do that, because we think the PIDG has potential to deal with the problems we are concerned about in the countries we are most concerned about.

Q82 Mrs McGuire: You have spoken about a multilateral approach. When you drill down into the figures, it is essentially a British approach, with a few other countries, some of which have significant economies, but all of which, as you have identified, have their own vehicles for doing things. In effect—to go back to the flags issue in the Report—what we are doing is branding projects as multinational when in fact they are British taxpayer-paid projects.

Mark Lowcock: You are right to say that the Government could have chosen just to do things bilaterally. Ministers have not decided to do that—

Q83 Mrs McGuire: But with 88% of the funding coming from the UK Government, it is almost bilateral in all but name.

Mark Lowcock: Well, there is a question about whether, if we were not doing it through this structure, it would be possible to attract in the private money in the same way. If you are doing it with a number of other countries, even if some pay a lot more of the bill than others, you get a different dialogue in the country in which you are doing the investment. There is a range of reasons why we think a multilateral approach such as this, alongside the bilateral approach, has some benefits.

Chair: Austin is going to ask one quick question, and then I want to move on to tax.

Q84 Austin Mitchell: I sympathise with that point of view, but I sympathise even more with Stephen Phillips’s view that we should do it for ourselves and get the credit that’s going and set the example. The thought of us setting examples to the Australians is ludicrous. We should set the example by doing it for ourselves and doing it—let other people follow that example. Even if we don’t do that, as I certainly agree we should, why don’t we demand more weight and say within the

organisation that is supposedly doing it? We are just one among a number of people who bleat support for what we are spending—88% of the support—yet we have very little influence in the organisation. At the very least, we should have and exercise the rights to inspect the accounts and the records of its fund manager—FMFML—and we should have the right to carry out money laundering checks and to stop money laundering by the subordinate companies that it is establishing. At least we need to assert our power so that we don't get the discredit and damage that arises from the kind of thing we are discussing now.

Mark Lowcock: I agree with that, Mr Mitchell. So far as I am aware, we do have and exercise those rights. Mr Valahu maybe should comment on this.

Philippe Valahu: We do. Will you allow me to give a bit of background? At the beginning of the year, a code of conduct was put in place, and different operating policies and procedures that go with that. Those operating policies and procedures have to do with tax; they have to do with fraud and disclosure. They had been in place in the companies over the years, but it was decided that there would be a crystallisation of those various policies into a PIDG code of conduct, so front and centre of what the board of directors of each company will look at when they are submitting projects to the new business committee or the credit committee will be such issues as those that pose a risk—reputational risk as well as financial risk.

Q85 Chair: This is 2014 and it has been going since 2002.

Philippe Valahu: No, what I am saying is that—

Q86 Chair: The code of conduct is a 2014 code of conduct that allows the sort of investigations that Austin is talking about, but the organisation—not with you there—has been going and receiving public money, taxpayers' money, since 2002.

Philippe Valahu: May I clarify the point that I was making? The policies and procedures under the code of conduct were embedded within the companies prior to 2014.

Q87 Chair: It doesn't look like it when we look at these examples.

Philippe Valahu: There was simply a decision in 2014 to crystallise them and put them in a central place.

Q88 Stephen Phillips: May I ask one final question on oversight and governance within DFID before we move on to tax? Mr Valahu, what is the contestability mechanism that we read about in the Report?

Philippe Valahu: The contestability mechanism was put in place by DFID, as I understand it, whereby if a company met its so-called logframe results, it could apply for additional funding—up to 5%—for additional activities under the various activities that it performs within its guarantees of debt. Equally, if it did not meet its targets, it would be penalised by the—

Q89 Stephen Phillips: That is perhaps a more appropriate question for Mr Lowcock. Mr Lowcock, more than £200 million has been routed through the contestability mechanism. Is that right? I am looking at paragraph 1.26 of the NAO report.

Mark Lowcock: More than £223 million was available for the contestability mechanism. In fact, only a small proportion of it has been allocated and drawn down.

Q90 Stephen Phillips: Right, but £223 million was available for use within the contestability mechanism.

Mark Lowcock: Yes.

Q91 Stephen Phillips: Now just remind the Committee, if you would, of the departmental authorisations in relation to spending limits in DFID. At what level do you have to go to the Secretary of State?

Mark Lowcock: This has changed over the past four years. When the allocation was approved when Andrew Mitchell was our Secretary of State, he agreed a set of arrangements whereby he approved the availability of the 700 and then delegated to officials below that. When my new Secretary of State was appointed, we reviewed that with her and put in place different delegated authority arrangements, not just for PIDG but for the whole Department, so the current delegated authority is that anything above £5 million is put to Ministers for approval.

Q92 Stephen Phillips: Right. So anything over £5 million needs ministerial approval, yet for the entire pot of money—potentially more than £200 million—no ministerial approval is necessary. Correct?

Mark Lowcock: That was the case under the arrangement in place under Mr Mitchell.

Q93 Stephen Phillips: It's still the case because those funds have been—

Mark Lowcock: It's not the case. It was changed as part of the set of new arrangements that Justine Greening asked us to put in place.

Chair: Is the report wrong?

Joe Perkins: My understanding is that the Secretary of State has been informed of the extra funding that has gone to PIDG under the contestability mechanism, but it has not had ministerial approval in the way that new spend of over £5 million would require.

Mark Lowcock: I think the recent cases have been put to her for a decision. I will take that away and if I am wrong I will apologise.

Q94 Stephen Phillips: I think you need to be absolutely clear about that and write to the Committee. Either this has been the subject of a decision by the Secretary of State, or she has simply

been advised of it. What the Committee is interested in knowing is whether there has been a spend greater than £5 million on the basis of previous authorities granted that have not received ministerial oversight in the way that new spending would have done.

Mark Lowcock: Yes.

Joe Perkins: Let me read from the cleared Report on this: “For these bids, directors have delegated authority to approve spending, although officials have informed the Secretary of State of their decisions.”

Chair: Just to finish that point, how many PIDG projects have been rejected over time?

Philippe Valahu: Is that a question for me?

Chair: I don’t know who it is for because I am unclear about who takes the decision. Perhaps you can both answer it. Am I right that two have been rejected?

Philippe Valahu: By individual PIDG companies?

Chair: Yes.

Philippe Valahu: A considerable number of projects are not taken forward because a two-step process takes place with the board of directors through which all projects must go. They go to the new business committee and then to the credit committee. But even before making it to the new business committee they would have to comply with a number of regulations under the investment policy to make them eligible.

Chair: Page 31, para 2.32 states that only four were rejected out of 220 applications.

Mark Lowcock: That refers to only two of the facilities. I think Mr Valahu was referring to the process across all the facilities. This is the position just in respect of proposals that have passed PIDG’s own internal scrutiny and have then, as I understand it, been put up to the donors collectively.

Q95 Mr Bacon: On that, when a decision is made, is it simply by majority voting? So if five donors want it and four don’t, the project goes ahead? Is that how it happens?

Philippe Valahu: No. If DFID, for example, were to say it would not be a good idea to support a water project in a particular African country, as was recently the case, the project would not go forward.

Q96 Stephen Phillips: So we have a veto, do we?

Philippe Valahu: Effectively, on the projects, yes.

Q97 Stephen Phillips: And everyone else, even though they put up only 12% of the funding, has a veto over the projects that we think ought to go ahead. Correct?

Philippe Valahu: Correct, but from what I have seen since I have been here it is usually done by consensus. I have seen few instances of that having to happen.

Q98 Stephen Phillips: Let me ask my question again. Consensus is not always possible. If the Swiss don't like a project that DFID thinks is a good project that will deliver valuable interventions in the developing world, they can block it. Is that right?

Philippe Valahu: In principle, yes.

Stephen Phillips: Even though they are contributing a very small amount of money to your finances.

Q99 Chair: Okay, one final thing on this and then I will move to tax. If you go to page 31, I think it is very instructive—again, it is back to the oversight issue—paragraphs 2.31 and 2.32. According to paragraph 2.32, in two of the facilities only four out of 220 applications were rejected. Given how risky this work is, I find that an astonishingly low figure, in particular when you delve in and projects emerge as dodgy as some of the ones we have been talking about this afternoon.

If you look above that, at paragraph 2.31, you do not always consult the country teams—there is a lack of proper co-operation—but where you did, they stopped one in Odisha in India and, just by a little bit of interference, brought down the costs by 58%. What that gets you thinking is that if there were proper vigilance and oversight, which I have to say has to come from DFID as well as the organisation, you might well be able to save one heck of a lot of money.

Mark Lowcock: Yes, I agree. The report is right that we need to improve the way in which we engage our country teams in looking at PIDG activities. I have accepted a recommendation and we are in the process of ensuring that it is implemented effectively.

Chair: What honestly makes me want to cry is that you have accepted that, but we have spent £0.5 billion here.

Q100 Mr Bacon: Why would you ever be in a position where you were not consulting your country teams? Your country teams are there, paid for by the taxpayer, to know what is going on on the ground. Why would you ever be in a position where you would avoid consulting them?

Mark Lowcock: As you know, Mr Bacon, we fund large numbers of multilateral organisations, which between them fund thousands and thousands of projects. If on every project there is a multilateral organisation—

Q101 Chair: This is mega-money, mainly British money. That could be the case if it was a £15,000 grant for one voluntary worker to work on a particular education team. This is megabucks here.

Mark Lowcock: Yes, and I am accepting that for the PIDG we need to have a different arrangement than is generically sensible for us to have for all the multilateral organisations, simply

because we do not have the staff to double-guess what every multilateral organisation is doing through each of its thousands of projects. We need a different arrangement of PIDG, I agree.

Chair: Oh dear! May I move to tax—

Q102 Stephen Phillips: When was it pointed out to you that you would need a different arrangement with the PIDG? Was it when the NAO turned up and conducted an audit of how well—or not very well—this was working? Or was it a view you had formed previously?

Mark Lowcock: We have been having internal discussions on this for a while. It is absolutely the case that the NAO Report crystallised this as an important issue. I am grateful for that. We need to do better on it. If the NAO raises things that we have not seen, it will always be my policy to sort the problem out.

Q103 Stephen Phillips: Come on, Mr Lowcock. If the NAO had not shown up and the Committee had not put this on the NAO's radar and agenda, and said, "Go in and have a look at this," you would not be sitting here today with this as a priority, would you? This would be just carrying on in its merry way with 80% of the funds for the PIDG being provided by the British taxpayer and everyone hoping for the best about any proper oversight being directed at the PIDG by the Government.

Mark Lowcock: Maybe Mr Kennedy could respond to that.

David Kennedy: It is my job to take forward our economic development approach, so we have a high-level strategy, and we are trying to operationalise that. The way that we are doing it is to identify what the priorities are in each of our countries, across each of the sectors, and then what other levers we can pull, including using PIDG. So we are going through a process now that will link up PIDG with those priorities in each country. It is not that we have not interacted with PIDG anyway; there are many good examples at the country level in Nigeria, India and Nepal. I have only just joined DFID and I went to Kenya for my induction trip. Among the first people I met there was PIDG to talk with them about the work in the country and to ensure that it was co-ordinated. We are doing things, but we need to get better and we need to make that systematic, and that is what we are doing.

Q104 Mr Bacon: You mentioned the word priority. Before we move on to tax, may I ask you one question about priorities, Mr Kennedy? Paragraph 1.14 says that 62% of commitments are in DFID's priority countries, so less than two thirds, which is quite low, given the shift that we heard about some years ago, which was that DFID was going to concentrate much more on priority countries and famously not fund so much to countries that were running space programmes and running up enormous balance of payments surpluses, such as India and China. Still only three fifths of the money is going to priority countries. Why is there such a large proportion that is not going to priority countries?

David Kennedy: Another relevant figure is that 42% is going to fragile states, and one of the reasons for setting up PIDG was that other organisations did not have the focus on fragile states. We could get that higher, and there is a really good opportunity to do that, so we are going through the process at the moment of refreshing the PIDG strategy. That will be discussed at the governing

council in December, and part of the strategy refresh is what the geographic focus of PIDG is going forward, so we are actively considering that issue.

Mark Lowcock: The other point I would make, Mr Bacon—*[Interruption.]* If I may, Mr Phillips, I will just make a point about this question. The 61% relates to our priorities today—the 28 countries that are a priority today. As you will recall, in 2010 we reduced the number of priority countries, so most of the other activity is in countries on the picture on page 18, such as Indonesia, Vietnam and one or two other countries, which used to be our priorities, but when we narrowed down, stopped being. So there will be a residue of some in the former priority countries, but we want PIDG to focus on the fragile, most difficult countries, which are the ones that we are focused on, too. I hope that that number will rise over time—that is what we would like to see.

Q105 Stephen Phillips: Just before we leave this point, PIDG is obviously engaged with ensuring that these projects take place, in part using its own money, Mr Valahu, but in part using private investors' money—correct?

Philippe Valahu: Yes.

Q106 Stephen Phillips: So part of where these projects go ahead is driven by where private investors are prepared to invest—also correct?

Philippe Valahu: Yes and no, because each of the companies is guided by its own internal investment policies.

Q107 Stephen Phillips: So, just for example, let us take west Africa at the moment. I suspect in a year's time that there is not going to be a great deal of appetite on the part of private investors—and certainly now—to invest in Liberia, Sierra Leone and Guinea. That is just obvious, so it must follow from that that part of what PIDG can do is driven by where private investors are prepared to invest.

Philippe Valahu: I agree with that, Mr Phillips, but the point to be made is that the companies have to follow a number of targets that have been set for them by the donors, which includes those countries in the frontier markets.

Q108 Stephen Phillips: I understand that, but it creates the problem for Mr Lowcock and the Department that you are now using British taxpayer funds through a vehicle whose investment portfolio geographically is driven by private investor appetite, rather than by the policy of the British Government.

Mark Lowcock: Well, Mr Phillips, what we are trying to do is change the private investor appetite. You gave the example of Sierra Leone, and one of the things that a PIDG project has done is help to finance the telecommunications network in Sierra Leone, with private money as well as a little bit of public money, without which—

Q109 Stephen Phillips: I should say that my partner was formerly working in Sierra Leone, so I know quite a lot about it—I do not know whether I need to declare that as an interest—and indeed, was indirectly funded by DFID through the ODI programme.

Mark Lowcock: Well, you will know better than me that without the mobile telecommunications network, the very difficult challenge that we have on Ebola in Sierra Leone, candidly, would be even more difficult. So I am sure you are right that we will face a different—

Q110 Stephen Phillips: But I am asking you a general question, not about specifics. I am asking you about this: you now have several hundred million pounds of taxpayer money, which is being invested geographically, in part, on the basis of the appetite of private investors for where they are prepared to invest. That is inconsistent with the Government's keeping control over their own investment portfolio.

Mark Lowcock: But as Mr Valahu says, there are only a limited number of places that the companies can invest, so what we are trying to do is change the appetite of the private investors to help bear a little bit of the risk they face and to get them a bit more willing to engage in these places, which as you say, they have not previously been willing to engage in.

Stephen Phillips: Right, let us move on.

Q111 Guto Bebb: Before we move on, let me just follow up an earlier question. I think you gave a reasonable response to the question about 62% of funding going to the priority countries by arguing that some of the spending had gone to previous priority countries. Would you be in a position to indicate the percentage that went to priority countries now and to the previous ones as well? Would that be something you could furnish the Committee with?

Mark Lowcock: We could. I should say one other thing, if I may. There is one PIDG facility that we do not finance, and we don't finance it because it operates in countries we do not consider to be a priority. You have to take that out when you do the calculation that Mr Bacon was referring to, but we will try to furnish you with the comprehensive set of numbers.

Q112 Chair: How do you, Mr Lowcock, ensure that the way in which PIDG conducts itself is in keeping with the Government's stated objectives and policies on tax avoidance?

Mark Lowcock: When PIDG was set up, one of the things that could have been done, as is generally the case with multilateral organisations, is that it could have been set up under treaty. If an organisation is set up under treaty, it has various immunities and exemptions, including from tax.

A decision was taken in 2002 by the then Secretary of State that the better thing to do, because of all the time involved in that option, was to look at trust options. We looked at whether it would be possible to create a trust—for example, a purpose trust—here in the UK. The Charity Commission advised us that, although PIDG was clearly developmental, it was not going to fully pass the Charity Commission test for being registered as a charity, so we had to look at other places where the trust could be registered. As you know, it is registered in Mauritius.

The Government were happy with the decision, which we were asked to take a view on, in respect of Mauritius, because Mauritius is approved by the Treasury, and it has an OECD status and a set of arrangements to do with its relationships—for example, with the countries which are members of the Common Market for Eastern and Southern Africa which made it useful operationally for things like the Emerging Africa Infrastructure Fund. That is the background to the decision that was taken to set it up as a trust in Mauritius.

Q113 Chair: But, if I may say so, Mauritius has a tax regime and a whole set of tax deals with other countries—it is like the Irish double sandwich or whatever it is called—which, in effect, makes it a tax haven, or, at the very least, a very, very low tax jurisdiction. My understanding is that the PIDG Trust is Mauritius-based; so is the Emerging Africa Infrastructure Fund, which we have been talking about; so is GuarantCo; and so is FMFML, a company we have, again, been talking about, and which has links to the guy in jail—they are all based in Mauritius.

Mark Lowcock: I do not know if Mr Valahu wants to comment on that, but the background—

Q114 Chair: Do you pay any tax, Mr Valahu? Does the PIDG Trust pay any tax?

Philippe Valahu: The company—

Q115 Chair: The trust makes money, the trust takes a return out of these investments—does it pay tax on that money?

Philippe Valahu: The companies that are registered in Mauritius indeed pay tax.

Q116 Chair: Does PIDG? The question I asked was not about the companies—I asked whether PIDG paid tax.

Philippe Valahu: The trust is registered in the UK for tax purposes.

Q117 Chair: So what is registered in Mauritius? My understanding is that the PIDG Trust is registered in Mauritius, and that is what Mr Lowcock confirmed in his contribution. It is not registered in the UK.

Philippe Valahu: I'm sorry: it is registered in Mauritius but operates in the UK and pays taxes in the UK—

Chair: But it is for tax purposes—

Q118 Mr Bacon: So it is domiciled for tax purposes in the UK, even though it is a Mauritian corporate entity. Is that correct?

Joe Perkins: The PIDG Trust is domiciled for tax purposes in the UK. The PIDG companies are domiciled for tax purposes in Mauritius—or two of the largest ones are.

Q119 Chair: So the two large companies are domiciled there, so they would not pay tax.

Joe Perkins: They pay Mauritian tax, but they do not pay UK tax.

Q120 Chair: Okay. May I ask about something else? My understanding is—let me get my bit of paper so I don't go wrong on this one—that the PIDG Trust is advised by SG Hambros. Is that right?

Philippe Valahu: That is correct.

Q121 Chair: Well, we know SG Hambros rather well in this Committee—particularly its links with NT Advisors and Matthew Jenner. There are a whole raft of tax avoidance schemes that this Committee has had an interest in where Hambros has been at the heart of it. There were the two Gary Barlow schemes—Icebreaker and Liberty—where Hambros was the bank.

I want to read out a bit of what the judge said about these schemes. In the Highlands scheme, which was one of these NT Advisors schemes, Hambros “helped plan and create the scheme with Jenner. Their role went further than merely providing finance.” The judge found that Jenner “worked with Hambros to develop the planning with which this appeal is concerned. Hambros received 1% of the amount of income to be sheltered, to include commissions on the gilt purchases.”

There was also the Price scheme, which was defeated by HMRC in 2012. Hambros was also the bank there, and the judge found that Jenner—the NT Advisors guy—discussed the scheme with a contact at Hambros. There was Project Corbiere, where the judge found that “the banking and other financial resources necessary to the scheme had been provided by the Société Générale group and, in particular, SG Hambros bank.” There was the Chappell scheme, where Hambros was named as a participating bank, and the Working Wheels scheme, which was the Chris Moyles scheme we considered in this Committee. Again, the man at Hambros—Stuart Gower—was the one who organised the finance for that scheme.

There was Blue Box, which was one of these outrageous schemes that exploited charitable gift aid. Hambros helped one of Jenner's NT Advisors clients gain charitable tax relief “whilst passing on 99% of the value of the assets supposedly ‘given’ to the charity to a family trust for the benefit of the appellant”. All of that is happening. Do you think it is appropriate that hard-working taxpayers are placing their money into the hands of people who are deliberately avoiding tax?

Philippe Valahu: My understanding today is that—as the permanent secretary has explained—there were historical reasons for us setting up the various trusts and for selection of the trusts. The donors have, over the years, re-confirmed their satisfaction with the services provided thus far by the trust.

Q122 Chair: I will ask the question again. Historically, it was set up like that and everyone was happy. Do you, with your responsibilities within PIDG, think it is appropriate that our money—the money of hard-working taxpayers—should be placed in the hands of people deliberately avoiding tax through what are, in effect, tax havens? I have to keep saying this: this money is supposed to be used for lifting people out of poverty.

Mark Lowcock: I do not know who the people are at Hambros who are doing the work for PIDG. Clearly, it would be a matter of deep concern to us if it turned out to be the people guilty of all the things you described, but I am not aware of that. The arrangements for the various PIDG trusts get scrutinised by the Department. I have tried to explain the reasons why they were set up in the way they were. This is something we need to keep under review the whole time because, if it turns out that the company have picked a manager who then does something inappropriate or wrong, that of course should call into question their role with the trust in the future.

Q123 Chair: Let me put it to you again. They choose to locate themselves, at best, in a low-tax jurisdiction. That means that tax is not paid into developing countries. There is a big issue around tax avoidance; it is the developing countries that miss out the most. The companies choose to do that in the first instance. They choose to use a bank which has this reputation for engaging quite aggressively in tax avoidance, together with an individual we know well in this Committee, who sets himself up with the cheeky name of NT Advisors—No Tax Advisors. We are back to the issue of your oversight of this all. If it were me and I knew that, I would sniff around, ask questions and satisfy myself. Clearly you and Mr Valahu have not done that. We are left wondering whether taxpayers' hard-earned money, which is supposed to be helping to lift people out of poverty, is actually being used aggressively to avoid tax.

Nick Smith: Chair, may I ask a question?

Chair: Can I get an answer to that question? Then I promise I will come to you.

Mark Lowcock: Clearly the Department is in favour of helping developing countries raise their tax base. We do a lot of work on that. It is a priority for the Department and the Secretary of State. For shared institutions, as I explained at the outset, there is a decades-long agreement across countries that there are certain immunities and privileges. When many of those shared institutions operate in developing countries, they benefit from immunities and privileges, including those in respect of tax. That is how lots of countries—

Q124 Chair: I mean, these taxpayer-funded companies are in a jurisdiction—let's say they have a deal with India—and are deliberately not giving tax for their activity to needy developing countries. It is just not on.

Mark Lowcock: May I respond to that point? The fiscal benefits from the 46 completed PIDG projects add up, I am told, to something like \$3 billion. One of the companies that PIDG invested in was a telecom company in Ghana—

Q125 Chair: You are taking it off the two that are there.

Mark Lowcock: No—

Q126 Chair: You are saying, “Well, generally they pay a bit of tax.” I am saying that there is evidence here that they deliberately located themselves—

Mr Bacon: With respect, Chair, I did not get to hear what Mr Lowcock is saying, and I would like to hear that.

Mark Lowcock: What I was saying is that in the case of the Ghana telecommunications project, the company paid a licence of \$125 million to the Government of Ghana to provide telecoms services. Likewise, in the case of the Democratic Republic of Congo, the companies in which PIDG invested paid a licence fee. There are other examples of PIDG’s projects being carried out and leading to an increase in the tax base. That is one of the objectives that we are trying to support.

Q127 Nick Smith: Mr Valahu, you have been incredibly tight-lipped this afternoon. We have barely got 20 words out of you. I am still trying to understand the PIDG tax arrangements. You said that the trust is tax domiciled in the UK for its tax arrangements, but the other companies are registered in Mauritius. Can you tell us more about those companies, what their turnover was and how much tax they paid in Mauritius?

Philippe Valahu: The two companies that are registered in Mauritius are the Emerging Africa Infrastructure Fund and GuarantCo.

Q128 Nick Smith: Say the last company again.

Philippe Valahu: GuarantCo. We said earlier that both companies are managed by the fund manager FMFML, which, in turn, is owned by Harith. Both of those companies have been historically domiciled over there.

Q129 Nick Smith: Domiciled in Mauritius?

Philippe Valahu: Yes.

Q130 Nick Smith: And historically for how many years?

Philippe Valahu: EAIF was created in 2003. It was the first company to be set up under the Private Infrastructure Development Group.

Q131 Nick Smith: And do you know how much tax it paid in Mauritius?

Philippe Valahu: Over the years, keeping in mind that it made losses in some years and small profits in some years because its intent is not necessarily to be making the massive returns that we would expect of a fund, it is approximately \$1 million.

Q132 Nick Smith: They paid \$1 million in the past 10 years—both of them?

Philippe Valahu: The other one was set up six or seven years ago. But it is for their profit alone. As the permanent secretary said earlier, for the projects themselves, those revenues accrue to the Governments where the projects are located.

Q133 Nick Smith: I am still not clear. So how much tax have both companies paid in Mauritius? The investment company first, and then the second company. How much tax have they paid?

Philippe Valahu: From memory, approximately \$1 million. I can get the exact numbers.

Q134 Nick Smith: Between the two of them?

Philippe Valahu: No, each.

Q135 Nick Smith: So \$1 million each. And what rate of tax were they paying?

Philippe Valahu: From memory, the effective rate was below 5%.

Q136 Nick Smith: Okay. And did any of the companies that they were working with that invested in other countries to which we were providing aid claim any tax or moneys back from those countries?

Philippe Valahu: I do not have the details on that.

Q137 Nick Smith: Can you get the details please?

Philippe Valahu: Yes.

Sir Amyas Morse: This is only a clarifying point. The discussion has tended to juxtapose PIDG capital and private sector source funding. In your total leverage model, you are quite heavily reliant on what I would broadly describe as public source funding—the World Bank and so forth. Is that not true? As I understand it, when you go in to invest with partners, it is not all private sector source funding.

Joe Perkins: Page 16, figure 3 describes a fairly typical PIDG project, which is a dam in Uganda. There are investments from EAIF but also from the Norwegian Development Agency and a grant from the Norwegian Government.

Chair: So nothing from the private sector?

Joe Perkins: There is some private sector investment in that.

Q138 Chair: The £20 million equity—that is private sector?

Joe Perkins: No, some of the equity is from the Norwegian Development Agency.

David Kennedy: There can be joint projects but the 46 completed projects where there has been \$970 million disbursed by PIDG has leveraged \$11 billion. For the projects that have reached financial close—

Q139 Mr Bacon: Could you repeat that? \$970 million leveraged \$11 billion, did you say?

David Kennedy: \$11 billion.

Q140 Mr Bacon: Okay, good. \$970 million leveraged \$11 billion of private sector—

David Kennedy: \$11 billion that has been leveraged to date for projects that are operational now. There are other projects that have reached financial close. If you take the sum of projects in operation and those that have reached financial close, the leverage is \$28 billion—a very good leverage ratio.

Q141 Sir Amyas Morse: Before we leave, we are not arguing with that, but that does include, in leverage terms, some public source funding. Does it not? It is not all private sector money. I am just trying to establish that. Just so that Committee is clear, a significant amount of the money is public sector source funding as well as private sector. Is that correct? It must be. What you are counting in your leverage model is not all private sector money, is it?

Mark Lowcock: It's a mixture.

Q142 Mr Bacon: So how much of the \$11 billion? Mr Kennedy just gave the remarkable statistic of \$970 million versus \$11 billion, which is sort of what one would expect and hope. In the Lagside in Northern Ireland, they put in around £130 million of public money and it led to about £1 billion. You hope there is going to be sort of eight, 10, 11, 12 to one. Of the \$11 billion to which you referred, Mr Kennedy, how much is ultimately from public sector sources?

Philippe Valahu: That entire amount that Mr Kennedy is referring to is private. Some 49% is domestic private lending or investments and 51% is from cross-border private investments. There is additional \$5 billion leverage, which would be from the international financial institutions.

Q143 Mr Bacon: You mean the World Bank and so on?

Philippe Valahu: Bilateral and multilateral institutions, indeed.

Q144 Austin Mitchell: Hambros bank must love you as a customer because it seems from the Report that all the money is lying around in bank accounts. There are over-enthusiastic

projections of what you can do and what is shoved into a bank account, and it just sits there and is not used. Who gets the benefit of the interest on that?

Mark Lowcock: That is an error the Department made, to leave balances intended to be passed on for the facilities with the trust. I am sorry for that error. It cost the taxpayer money because it led to a bit of an increase in the public sector borrowing requirement. The problem is fixed and I have commissioned a wider review across other multilateral organisations to check that we are not making the same mistake elsewhere.

Chair: Why did you not own up to it, Mr Valahu? I assume Hambros made the money on it. Hambros got the money out of it because they are running the trust.

Austin Mitchell: It's not going to turn it away.

Q145 Chair: Would Hambros have got the interest?

Philippe Valahu: No. Any interest realised would have been put back into the trust as part of the money that was made available.

Q146 Stephen Phillips: Mr Valahu, that goes so far. The interest rate that the trust was being paid was 0.016%.

Philippe Valahu: I agree with you.

Q147 Stephen Phillips: Right, so the return on capital, which is the question that the Chair is really asking—on taxpayer money that should not have been left with PIDG as a result of a failure in the Department—went to Hambros. Is that correct?

Philippe Valahu: Yes.

Nick Smith: Did Hambros tell you that they had £27 million of our money in their back pocket and it wasn't being used?

Chair: No, they should have known.

Nick Smith: They should have known but Hambros should have told them, too.

Q148 Stephen Phillips: Can I just ask? This is money that either should be going to the British taxpayer—in other words, it has increased the public borrowing requirement—or, most importantly, it should have gone to help some of the most needy people in the developing world. Have either of you—specifically the PIDG, but the Department can do this as well—asked Hambros, although they are no doubt not obliged, to pay a decent rate of interest on this money that was left with them unnecessarily, to make a voluntary contribution either to the PIDG or to some other body that will assist those in the developing world? Because Hambros are the ones who should not have benefited from this.

Philippe Valahu: To clarify, the moneys were obviously on short-term deposits, so in the low-rate interest environment, as you pointed out—

Q149 Nick Smith: How long was the money there for?

Chair: It was there but it has been pulled back now.

Stephen Phillips: It is now £27 million.

Mr Bacon: It was on the overnight for several years, was it, basically?

Philippe Valahu: For a period of 18 months for a number of reasons. But as the permanent secretary has said, today any money that would transit through the trust would stay there 48 hours at the most.

Chair: You have not answered the question.

Q150 Stephen Phillips: What I would like, though neither I nor the Committee can compel it, is that as a matter of good will both of you should ask Hambros to make a significant payment of several hundred thousand pounds to an appropriate organisation operating in developing countries.

Nick Smith: Something like Médecins sans Frontières.

Mark Lowcock: I would be happy to do that.

Stephen Phillips: Or in fact, specifically in relation to those who are working in the outbreak in west Africa at the moment.

Mark Lowcock: Yes, I would be happy to do that.

Q151 Mr Bacon: I do not understand why we are having to have this conversation, because cash sloshing around doing nothing is one of the first things that you both should be aware of. It should be very front and centre: how much there is, what the liquid balances are, what they are doing, whether they are not being used. This should have been staring you in the face the whole time.

At a local branch of the WI, a group of ladies would sit down with really nice home-made cakes and a cup of tea and would talk about their balances and what they were going to do with them to ensure that they got a higher return. They would have done a better job of it than you—*[Interruption.]* The reason it is called WI is because it is women. You will know, Chair, that there are many investment clubs up and down the country run by women that produce superior returns to many people in the City. So if I am making a sexist point, it is in favour of women at the expense of all those people in the City taking out more than they are putting in. But what I do not understand is how they are able to notice this and do something about it but neither of you were. I don't understand it.

Mark Lowcock: Well, Mr Bacon—

Mr Bacon: Mr Valahu, your background is 20 years in private finance and emerging projects, export finance and risk management. What about the risk of not getting a return on these balances? It is pretty basic stuff. I know that you have only recently joined—

Stephen Phillips: Let us have an answer. We know that Mr Valahu has been a target, so he should answer it.

Philippe Valahu: It would be very difficult to disagree with you, Mr Bacon. I could give you a host of reasons in terms of agreements that were being put in place that were being delayed, a facility being set up that was delayed. But at the end of the day those are not sufficient answers. That is why today new measures are in place to ensure that needs are processed in such a way that money will never sit there for more than a week.

Q152 Mrs McGuire: Can Mr Lowcock tell us what processes are in place now to stop the money coming from DFID and sitting for God knows how many months, even on low interest rates, in other organisations?

Mark Lowcock: Yes. Maybe David can explain exactly what is happening in PIDG and how in practice we have avoided repeating that problem.

David Kennedy: The money had sat in the PIDG Trust and that does not happen any more. As Mr Valahu said, money passes through the PIDG Trust and stays there for no more than 48 hours. We have got two flows of funds that have gone through in less than 48 hours, so we will never have the fund sat there for more than that time.

Q153 Mrs McGuire: So, if Mr Valahu says to you, “I need a drawdown of £X million,” will you put that through the system? That is how it is now operating.

David Kennedy: Yes. It is for need at the facility level now. In order to avoid cash sitting at the facility level, which again you would rather not have, we are moving to a system where there are promissory notes, rather than cash, given to the facilities. We can tell you that the first promissory note has been signed today with the Green Africa Power fund.

Mrs McGuire: That is very fortunate, isn't it, just before you come here?

Q154 Stephen Phillips: One of the facility people on those transactions is opposed to transferring cash, which is what you used to do.

Mark Lowcock: It is done by the Bank of England, Mr Phillips, so they are negligible.

Q155 Stephen Phillips: There is a notional charge to the Department by the Bank of England, isn't there?

Mark Lowcock: I'm not sure if there is or not. The Bank of England does this on promissory notes for us across a range of institutions. The reason we do it is because, although when we deposit

the note it scores against the DEL, the taxpayer does not have to stump up the cash. We use this system in a range of institutions.

Mr Bacon: Very quickly, because we have to vote.

Chair: We'll come back after the vote.

Q156 Mr Bacon: Mr Valahu, who is your employer?

Philippe Valahu: I am employed by MDY Legal, which is the firm that has the contract to manage the PMU.

Q157 Mr Bacon: So you are not employed by this entity in Mauritius.

Philippe Valahu: No, I am not.

Q158 Mr Bacon: Where are you domiciled for tax purposes?

Philippe Valahu: My family—my wife and children—reside in Switzerland because she is Swiss. My in-laws and whole family live there, so I commute back and forth.

Q159 Mr Bacon: So the answer to my question is?

Philippe Valahu: That I am a resident of Switzerland.

Q160 Mr Bacon: And you are domiciled for tax purposes in Switzerland?

Philippe Valahu: I am indeed, yes.

Q161 Mr Bacon: The office of PIDG, where you work each day, is in London.

Philippe Valahu: Not each day here, because I will be travelling back and forth.

Q162 Chair: But the office is here.

Philippe Valahu: MDY Legal has its offices in Sutton.

Q163 Mr Bacon: So you are what is colloquially known as a non-dom. Is that right? In the UK.

Philippe Valahu: I'm not sure what a non-dom is.

Q164 Mr Bacon: You are not domiciled in the UK for tax purposes.

Philippe Valahu: No, I am not.

Mr Bacon: Okay. I just want to be clear about that. Thank you.

Sitting suspended for a Division in the House.

On resuming—

Q165 Mr Burrowes: In 2011, there were additional investments, which increased investment in PIDG fivefold. I just noticed that the multilateral aid review assessment of PIDG took place in 2011. There are various categories of what is strong, weak and satisfactory. Back then, transparency and accountability was categorised as weak—did that judgment, or any other, affect your investment decision?

Mark Lowcock: We did use the multilateral aid review to inform the investment decision. We had also just introduced a quality assurance unit, which we did not use for that because we had just done the multilateral aid review. We looked at all the evidence and made an allocation of £700 million, although we have now decided to extend the period over which that will be drawn down. We considered a number of other options for ways in which we could achieve the policy goals. We could have given more money to the International Finance Corporation of the World Bank to work on these private sector infrastructure issues, but we did not do that because we did not think that they were in the right set of countries. We could have done something with the EU, but we did not do that either. We were aware that it was a lot of money to think about investing in PIDG. We were not making an irrevocable decision that we would definitely spend the £700 million; there was a set of subsequent decisions, not all of which have been made. We looked at all the evidence and we gave an allocation.

Q166 Mr Burrowes: Was that a maximum allocation? Did you look at spending more?

Mark Lowcock: Without us going back to Ministers, there is no possibility of increasing the allocation. We went back to Ministers six or seven months ago on the question of whether we should extend, because we could have just decided after March 2015 that we do not want to do anything more, but that is not what they decided.

Q167 Mr Burrowes: In that decision six or seven months ago to extend the draw-down, did you think it was necessary to carry out any further review? This dates back to February 2011—was there a need to carry out such a review before the decision was made six or seven months ago?

Mark Lowcock: Yes, we did a number of things—David can speak to some of them.

Q168 Mr Burrowes: Did you carry out a similar review first?

David Kennedy: That is something we are currently in the middle of. There was the 2011 governance review, after which a lot of things happened, in terms of strengthening the oversight, for

example, and strengthening the capacity of the chair—a whole set of things. That was not the end of the governance framework, so we recognise that there are still things to do. Issues have come up with the NAO Report, which have been addressed, for example in terms of the cash balances. However, there are still more things to do on, for example, risk management within the company. A governance review will be carried out now—it is being contracted at the moment and looks at all aspects of governance of PIDG.

Q169 Mr Burrowes: So before the decision was made six or seven months ago, did you carry out the same level of review in relation to all 10 of these categories?

Mark Lowcock: We re-did the multilateral aid review, with which the Committee is familiar, in 2013. We had another look at PIDG then, but that was not the only thing we did. We looked at a range of other things: we looked at what progress there had been on the governance improvements that we wanted following the 2011 PIDG governance review, and we were broadly happy with the progress; we identified some other things on which we wanted to make progress, hence the proposition we made to the PIDG governing council that we wanted the governance review; we wanted a tidying up of the Treasury policy, for the reasons we touched on earlier; and we wanted a stronger work programme on evaluation. So there was a range of things that we wanted.

Q170 Mr Burrowes: But you did not decide that governance should be a condition of funding.

Mark Lowcock: We did not decide that, because there was already agreement that there would be follow-up on the things that came out of the governance review.

Q171 Mr Burrowes: What would the follow-up have been? What do you mean by that?

Mark Lowcock: Well, for example, a list of things that came out of the governance review and subsequent things is set out on page 25 of the Report. I can run through some of them. There was the new code of conduct and operating procedures, the strengthening of the office of the chair, stronger requirements on the PMU to enhance financial reporting, and some of the other issues to which I have referred. One point I would like to make, if may, is that our position is that the governance of the PIDG will need to continue to evolve; our position is not that the issues are all sorted out. We strongly welcome the recommendation made by the NAO on that point. We do not think that we can forecast with 100% accuracy all the issues that will need to be addressed, but we have a strong commitment to doing the best we can to identify them as they come up.

Q172 Mr Burrowes: Where is the difference between a strong commitment on governance and actually making it a condition of funding? What would be the difference to PIDG between where we currently stand, with a strong commitment and these things happening and evolving, and making it a condition of funding?

Mark Lowcock: I am not really sure that there would be very much difference. One problem that you sometimes get if you impose specific conditions is that if some other issue comes up that you had not identified and had not been made a condition, you then get into what can be an unhelpful discussion, such as, “Well, you said there were these conditions and now you are saying

there are more conditions”, and that is not conducive to an approach of continuous improvement. If we have major concerns, I am not ruling out the possibility that we might impose a condition in future, but I am not sure that with an organisation such as the PIDG that that will be the best way of proceeding.

Q173 Mr Burrowes: So, if you want to make a difference, why not make it a condition?

Mark Lowcock: For the reasons I have just tried to explain; I am not sure that it would be the best way of proceeding.

Q174 Mr Burrowes: May I just deal with one aspect of the review? Point 9 is about transparency and accountability, which was categorised as “weak” in 2011. Where would you categorise it now?

Mark Lowcock: The Report says that PIDG’s reporting and its approach to identifying whether it is genuinely bringing in new capital rather than financing something that would have happened anyway are comparatively advanced. So there are some good aspects to transparency and accountability; there are some areas where we would like further improvement. For example, we would like further improvement in the way that administrative costs are monitored. We have had agreement, for example, that the expenses of PIDG’s directors should be published. So there is more to do—

Q175 Mr Burrowes: In February it said—this is a question for Mr Valahu—that, “Line of accountability from donors to PMU to facility Board to facility management may need tightening in some cases...Little evidence of PIDG’s delivery partners being progressively transparent.” Has that changed?

Philippe Valahu: If you are asking whether the set-up vis-à-vis the boards of the companies has changed—

Q176 Mr Burrowes: I am saying that was the judgment back in 2011, when it was judged to be “weak”, and you say it has “advanced”. Is the line of accountability from donors to PMU now tight?

Philippe Valahu: I think a number of things have changed since. Where the chairs of—

Q177 Mr Burrowes: But in terms of your judgment, would you say that it is tight and that the delivery partners now show evidence of being transparent?

Philippe Valahu: I would indeed. From where I sit today, between the donors and the companies, I would say yes.

Q178 Mr Burrowes: So the judgment for transparency and accountability six or seven months ago, when we decided to extend the drawdown, you would judge that to be weak, strong or satisfactory?

Mark Lowcock: To be honest, I am not sure whether we did exactly that as part of the overall approach—I am not sure whether we applied exactly the same methodology. I can check on that, Mr Burrowes. But my answer to your question is: what we see is continuing improvement, but not a perfect situation.

Q179 Mr Burrowes: Can I just take one less-than-perfect situation as an example—the flight travel? So we see from the NAO Report, in paragraph 2.19, this example of 15 flights booked since January 2010 for more than £5,000 each—more than £75,000. That seems to have gone along despite the fact that in September 2012 PIDG members advised the directors to ensure they had permission. So, at least there was notice of it then, but nothing was done until now, when suddenly the meter has stopped and it is not carrying on. How can we be satisfied that there is evidence that issues such as the basic costs of travel are receiving proper scrutiny?

Philippe Valahu: The travel policy is one that has been looked at very closely by the donors, including DFID, and it has evolved over time—

Q180 Mr Burrowes: It has “evolved”? It has “evolved” to the point that they have carried on booking their flights at £5,000 each, despite the fact that there was notice of it to the members in 2012.

Philippe Valahu: Yes. The point to remember is that, in trying to achieve diversity among the board members, we have board members located in Kenya, Nigeria, Australia, Singapore and India. And we have a number of meetings that will take place; the general council meetings will normally take place in—

Q181 Mr Burrowes: Yes. It took two years to eventually get a straightforward policy to prohibit these fully flexible tickets. That is just one example of where there is not much confidence that there is accountability, transparency, or whatever you think of it—there is not good value for money.

Mark Lowcock: If I may say so, Mr Burrowes, it was in September 2012 that fully flexible business fares were no longer permitted, except in exceptional circumstances. Subsequently, there has been a further tightening, and—

Q182 Mr Burrowes: I understand that that is not the case, that they should seek permission to book it, and that it was only in July 2014 that there was this prohibition. So we had two years. And I am surprised—you are not clear yourself, because—

Mark Lowcock: Well, maybe Joe will correct me, but I am not sure that there is—

Joe Perkins: That is the case as we understand it, Mr Burrowes. There was a requirement for the chair's permission, but not any explicit statement that it needed exceptional circumstances. Some of these expensive flights were booked after 2012.

Q183 Mr Bacon: When did the prohibition as a whole come in?

Philippe Valahu: The code of conduct that I described earlier was put in place on 1 January this year and the operating policies and procedures with respect to travel expenses were implemented on 1 July of this year.

Q184 Mr Bacon: July 2014.

Philippe Valahu: 2014, which requires—

Q185 Mr Bacon: And this Report was published in July 2014. Funny that.

Mark Lowcock: The one point that I would like to make on that—we have touched on this in previous hearings—is that the Government have been pursuing for a while a policy of changing the administrative expenses travel class across the multilaterals. The World Bank, for example, has only this year been successful in getting its policy changed so that it is no longer allowed to go business class if a flight is shorter than five hours. The Government will continue to work as hard as we can on this, but we need to bring all the other donors with us.

Q186 Mr Burrowes: You are an 80% donor, so you have a significant contribution and interest. When did the Department become aware of these expensive directors' expenses claims between 2011 and 2014?

Mark Lowcock: A set of issues arose in 2012, which led, for example, to the change that was made in 2012 on fully flexible business fares. There was some tightening up. It was not what we wanted, but it went further after that.

Q187 Mr Burrowes: On that point, there was further tightening up, but it was not what you wanted. As a significant donor, how much weight do you carry to be able to ensure that would seem in this day and age an obvious situation that they should not have fully flexible tickets unless there are exceptional circumstances?

Mark Lowcock: There is a collective decision-making system. You are right to say that we are basically buying into the pros and cons of that if we operate in a multilateral way. We have had a series of things that we have done to move the travel policy in the direction that the British Government thinks is right.

Q188 Mr Burrowes: Is there not a veto to ensure that if there is an issue of value for money as well as picking a good project, then the Department's view holds sway?

Mark Lowcock: Well, perhaps Mr Valahu will like to comment on that, but our experience is that it is quite difficult to exercise a veto on that kind of issue. You have to persuade people who are also part of the governance—

Q189 Mr Burrowes: I am sure it is. When people have got their expensive flights, it must be difficult to persuade them not to carry on with them.

Mark Lowcock: Yes, but we have to persuade other eight or nine countries that are part of the institution as well.

Q190 Mr Burrowes: But you can appreciate the imbalance here, given the significant amount of taxpayers' money that is going into this. When they see that more than £75,000 is going on expensive business flights, they will not be impressed. There is a duty on the Department to have weight and significant influence given the amount of money that is going into this.

Mark Lowcock: And that is what we are trying to do.

Q191 Mr Burrowes: But it is taking so long to do it.

Mark Lowcock: Because, as I say, we do not have the only voice in this. We need to bring the others along.

Q192 Mr Burrowes: Despite all that, six months ago we extended the draw-down period for the maximum amount of money. Should that not raise further questions? This is just one example that has been picked up regarding value for money for the taxpayer. The question is whether we made this decision without the proper scrutiny, without the proper accountability mechanisms and without the decision-making mechanisms in place. That is the question that I am not convinced has been answered.

Mark Lowcock: We take an overall view on the value of working through PIDG, with its strengths, some of which I tried to outline earlier in the hearing, and the areas for improvement. We give Ministers the set of information, we tell them the reforms we want and they decide overall, on balance, how they want to proceed. The PIDG, as the report says, does finance good projects with important benefits. That does not mean that it is perfect, but it does things that are not done in the same way by other institutions available to us. That is the basis for the judgment.

Q193 Mr Burrowes: We do not dispute that there are a lot of great projects. The problem is that people see this example of something that would not be acceptable elsewhere at a time when everyone is tightening their belts on issues such as business flights. You have to look around other companies and see that they are doing it. For this to happen on this scale for this period of time must mean that people do not have confidence that there is proper scrutiny and accountability for these decisions.

Philippe Valahu: I would only add to what the Permanent Secretary said. People who were booking those flights at the time were operating under policies that existed. We moved to change from the fall of 2012 to December 2014.

Q194 Mr Burrowes: Just one final point. The answer has been that these are all good projects—you do not have to convince us about that. That is not the point. Unfortunately, it undermines that case because on these very basic expense issues there is not proper rigour and scrutiny. Do you accept that?

Mark Lowcock: Well, we have been working hard to both drive down the expenses and to have more transparency over them. That is not the only issue.

Mr Burrowes: No, it is not.

Mark Lowcock: It is not the only issue that we are trying to address in PIDG. So, as I said, what we are doing is taking overall judgments on whether we think we can get value overall—

Q195 Mr Burrowes: Just a final point. What happened over those three years was for a directly supervised and contracted matter with DFID. If not at PIDG, but in another situation where you are directly supervising matters, would you have accepted things going on like this?

Mark Lowcock: Over those years, the Department's travel policy changed. Our standard, unless there is a business case, is that we all fly in economy. That is something we have control over.

Mr Burrowes: Exactly

Mark Lowcock: This is a shared endeavour and we do not have the same degree of control.

Mr Burrowes: That is clear.

Mr Bacon: Even though you pay 88% of the costs.

Q196 Nick Smith: Mr Valahu, we have heard that PIDG is very largely funded by the UK taxpayer. We have heard Mr Lowcock talk about the importance of transparency for the UK taxpayer so we know where our money is being spent. Mr Valahu, what is your annual salary?

Philippe Valahu: My annual salary is £150,000.

Q197 Nick Smith: And do you have any bonuses on top of that?

Philippe Valahu: No, there are no bonuses involved.

Q198 Nick Smith: No other financial benefits at all?

Philippe Valahu: No, none whatsoever.

Q199 Nick Smith: Pension?

Philippe Valahu: No. Because it is a four-year contract. So there is nothing else that goes with it.

Q200 Nick Smith: Okay. And where do you pay tax?

Philippe Valahu: In Switzerland.

Q201 Nick Smith: You pay tax in Switzerland. What is the tax rate for you in Switzerland?

Philippe Valahu: 21% or 22%.

Q202 Nick Smith: Mr Lowcock, did you know that Mr Valahu was paying taxes for his employment, mostly for the UK taxpayer, in Switzerland?

Mark Lowcock: To be honest, Mr Smith, Mr Valahu and I do not know each other very well. So that is not a question I have asked him. There was a competition to fill the post Mr Valahu runs. The donors had to be satisfied about who the best person to do the job was. They thought it was Mr Valahu and then they wanted to make sure there were appropriate terms and conditions set in train. I have staff members who don't necessarily live in the place where they do most of their work. So it is not a surprise to me that someone like Mr Valahu might have his family in one place and for tax purposes be resident there and work in other places. That is quite common in my experience in international development organisations.

Q203 Nick Smith: Okay. But this is a contract worth £600,000 over four years. Is that right?

Philippe Valahu: That is correct.

Q204 Mr Bacon: Do you have to pay your own airfare backwards and forwards every week?

Philippe Valahu: I do, yes.

Q205 Mr Bacon: It is not paid for you by PIDG?

Philippe Valahu: No.

Q206 Mrs McGuire: In the NAO report, paragraph 3.12 on page 37 states: "Several of the expected development impacts claimed by PIDG rely on a handful of projects. For example, one of its closed projects...accounts for 45 per cent of all additional people served, and four projects account for 45 per cent of all those receiving better quality services...Seventy-five per cent of the 214,099 long-term jobs it expects relate to support for an Indian financier of commercial vehicles."

Mr Lowcock, given that in terms of your outcomes there is so much investment in such a small basket of projects, what are you actually doing to ensure that those projects can and do deliver? Otherwise there will be a really embarrassing future meeting of the Public Accounts Committee.

Mark Lowcock: As the Report says in paragraph 3.13, it is not surprising on the face of it that some projects are big and some projects are small. Earlier, I gave a figure that more than 100 million people—I think it was 113 million people—are benefiting from services that the PIDG has helped to put in place. That does not include the one big project that is referred to here, which is a satellite telecommunications project. That project involves 12 satellites being put into orbit. Four were done in 2013, four were done earlier this summer and the last four are being done next year. It is a little behind track, but PIDG expects the project to deliver its benefits. That is something on which we keep a very close eye.

Likewise, the Indian project has created a lot of jobs. We keep an eye on that, too, but for almost all of the projects that are operational and completed—I have a list in front of me—I have a figure for the number of jobs created. This is something on which we keep a close eye, and I have figures for almost all of them on the number of people who are benefiting from the services. I have numbers on the fiscal impact for about half to two thirds of them—if they are paying a fee, if the company is paying VAT or, as is the case with a wind farm project that is producing a quarter of the electricity in Cape Verde, if there is a fiscal benefit because the country no longer has to pay £10 million a year in oil imports. We look at all the benefits for each project as it becomes operational, and they are reviewed in the governing council.

The Report rightly says that we need to do a bigger programme of independent evaluation on all that. The PIDG council commissioned that from the PIDG earlier in the year. The independent evaluation that has been done so far has been positive about the benefits that have been generated. It is also the case that when independent auditors have checked on the claimant levels, if you like—the number of beneficiaries, fiscal benefits and jobs created—the finding that they reported to the donors has been that PIDG tends to err on the side of caution. As we do this bigger programme of evaluation, we will find out how successful things are in future. We will learn lessons and keep driving for value. For each project, my team will keep asking who is benefiting, by how much and in what way.

Q207 Mrs McGuire: Who will be the auditors? I am assuming that it will not necessarily be financial auditors, although that may be a part of it. Who actually audits the beneficiaries, the quality and the health and safety elements around some of the projects? Whom do you use?

Mark Lowcock: PIDG has a system. I don't know whether Mr Valahu wants to add to that.

Philippe Valahu: For the evaluations we would use normal EU procurement rules. There will be a number of firms based in the UK, the Netherlands and Australia, across most of the countries in which the PIDG operates, that are perfectly able.

Q208 Mrs McGuire: Can you give me a couple of organisations that you might use or are using?

Philippe Valahu: In the UK, you might have ICM.

Q209 Mrs McGuire: What?

Philippe Valahu: Sorry—IMC, a consultancy with expertise in the area of development. I can provide the names separately, but there are names in a number of places.

Mark Lowcock: Another example would be the Overseas Development Institute, which is a well known think-tank that reviewed the Uganda project described in the Report.

Philippe Valahu: There is a firm in Australia called Sustainia that does a lot of work in this area, too.

Mrs McGuire: Thank you very much.

Q210 Stephen Phillips: I am not entirely clear about the evaluation. Is evaluation of the projects in which PIDG is investing now taking place within the Department that was not previously taking place? I am looking at value for money.

Mark Lowcock: We are going to rely, for most of the evaluation material, on the shared work that is commissioned. The ODI example on Uganda was paid for by the PIDG as a whole and not by us. We think that is a better system than us doing it all.

Q211 Stephen Phillips: Hold on, let's take it in stages. Previously, as I understood it, one of the criticisms that the NAO make is that you had been entirely reliant on PIDG for your evaluation of value for money in relation to the funds that the taxpayer was deploying—correct?

Mark Lowcock: I don't think that is quite correct because the PIDG commissioned an independent organisation in the ODI and also an independent auditor to look at whether the results were over claimed. There was independence between the PIDG and—

Stephen Phillips: And its outside auditors.

Joe Perkins: What we said was that, on the whole, we found excessive reliance on project sponsors or PIDG employees for the numbers claimed. The system of monitoring the impacts of projects relies on the reports of people who have received the money.

Q212 Stephen Phillips: Right. So what that really comes down to is that previously, as far as the evaluation is concerned, there was an overreliance on data provided by PIDG itself. How is that now going to change?

Mark Lowcock: The donors, earlier this year, agreed a programme of independent evaluation, which maybe Mr Valahu can describe in a bit more detail.

Philippe Valahu: There are a number of evaluations that take place on a yearly basis, both at the companies and project level. There is a review under way—

Q213 Stephen Phillips: When you say “companies” you mean the facilities?

Philippe Valahu: Yes, I am sorry, the facilities, as well as the projects. There is a review under way to see how we can, with the resources that we have, increase the independence of those evaluations so that more projects are covered at a time when more projects become operational. As the companies or the facilities mature, you have more projects that are becoming operational and so—

Q214 Stephen Phillips: So evaluation takes place at a project level and at a facility level. Is that correct?

Philippe Valahu: Yes, it does.

Q215 Stephen Phillips: So after each project is created is there an evaluation to see whether or not it delivered value for money for PIDG and its investors?

Philippe Valahu: Until now that has been done internally for most. There have been some independent evaluations because there simply have not been the resources available to do it systematically on every project.

Q216 Stephen Phillips: All those evaluations are now going to be made available to the donors, are they?

Philippe Valahu: And the ones that have been done in the past would always be made available to the donors as well.

Q217 Stephen Phillips: That is fine. I am to understand what is now going to happen in the future. Mr Lowcock, how are you going to ensure that my constituents in Sleaford and North Hykeham are getting value for the money that they are ploughing into this?

Mark Lowcock: We are going to keep the governance arrangements with the others under review and try to make sure that they are continuously fit for purpose.

Q218 Stephen Phillips: Looking at evaluation rather than governance.

Mark Lowcock: Evaluation, okay. The work programme on evaluation is going to throw up a larger volume of results and findings. The philosophy is that where there is a success that could be replicated, particularly if there is innovation, there will be a communications effort on that. Where there is something that has gone wrong, that should not be replicated—

Q219 Stephen Phillips: Can I tell you what I think the problem is? This is not some small investment by the British taxpayer; this is £700 million investment over a six-year period by the Department. I think someone in the Department needs to look at whether or not that is delivering

value for money on a regular basis by reference to independent evidence and metrics by which they can assess that. Why is that not happening?

Mark Lowcock: We are also commissioning a separate development impact review ourselves.

Mr Bacon: You mean you buy it in?

Q220 Stephen Phillips: Forgive me, just on the PIDG or across the piece on all DFID's work?

Mark Lowcock: Well, no. What I have just described is just on PIDG. I am not sure, Mr Bacon, of the mix of internal and external people we will have on this. We have some evaluation capability ourselves, but frequently we need to bring in expertise that we don't have available.

Q221 Stephen Phillips: You have some first rate people in DFID, including some first rate economists, so why can't they just do the work in-house?

Mark Lowcock: Because they have too many other things to do. You are right that we have excellent economists in the Department; 150 of them. They are all quite hard-pressed. About 10% of each of their time—

Q222 Stephen Phillips: But the trouble is that if you bring in KPMG or whoever—PWC—you are going to pay £3,000 a day for an economist who would cost the Department a third of that figure.

Mark Lowcock: This is why we are more likely to bring in ODI or one of those organisations which—

Q223 Stephen Phillips: But then we are back to the cosy little development club which is effectively auditing itself, aren't we?

Mark Lowcock: I think that is not a fair characterisation of ODI's approach to evaluation, or that of other organisations like it. Roughly 10% of the time of each of the advisers of the sort you describe is spent working on things they are not directly responsible for. For example, some of them will do a project review on a country they do not work in, or they might contribute to an evaluation. That is part of the approach that we should have, but the Department is not staffed to do all of the programme of evaluation that we think it is appropriate to do.

Q224 Mr Bacon: You used to have somebody called a value for money director—Liz Ditchburn.

Mark Lowcock: Yes.

Q225 Mr Bacon: She is still in the Department, but now not doing that job any more. Is that correct?

Mark Lowcock: She has a broader job. She is the policy director.

Q226 Mr Bacon: So who is now value for money director?

Mark Lowcock: His name is Les Campbell.

Q227 Mr Bacon: Does he have overall responsibility for value for money in the Department's programmes?

Mark Lowcock: Well, I have overall responsibility for that, and Les's boss, Richard Calvert, whom you have met before, also has a set of responsibilities. Les has the same responsibilities Liz had, but value for money is the responsibility of every single person who works for us, not just two or three people who might have it in their job title.

Q228 Stephen Phillips: I want to follow on from the evaluation. You may or may not have a new Secretary of State after next May; I am sure you will at some point in the future. If the new Secretary of State walks through the door and says, "Exit this PIDG programme now," how long will that take? How long are we committed for?

Mark Lowcock: I am not sure whether or not we would have to make any more payments. I am not sure whether there is any legal or contractual obligation that would have to be discharged next year, but—

Q229 Stephen Phillips: I do not want you to speculate, so perhaps you could write and let us know the answer to that question.

Nick Smith: Mr Valahu has a four-year contract.

Q230 Stephen Phillips: It may be terminable. If a new Secretary of State said, "It's actually a great idea, delivering these infrastructure programmes with the private sector, but I don't see why we should be ploughing 80% of the money into PIDG when we could have our own British company doing that." How long would that take to set up?

Mark Lowcock: I think it would take a long time to set up something like the PIDG from start, but that is not the only option available to a new Secretary of State. As you know, we have a development finance institution, CDC, which works in part of that area. There would be a range of other options available to any future Minister, including, for example, the use of the International Finance Corporation, or the World Bank's new Global Infrastructure Facility. There would be a range of options.

Q231 Stephen Phillips: A final question to Mr Valahu. How much does the PIDG Trust cost a year to run, with all its staff, its premises and everything put together?

Philippe Valahu: I don't have the exact amount, so I will forward that to you, but to my knowledge, it is £200,000 or below.

Q232 Mr Bacon: Very briefly, a couple of follow-up questions on evaluation. When you said you commission evaluation, I take it that you meant you commission either externally or from people inside your Department, and that both would be under the rubric of commissioning.

Mark Lowcock: And sometimes they're mixed teams.

Q233 Mr Bacon: Okay. I understand why you might do that. I think lots of organisations, including the National Audit Office, use a mixture of internal and external resources depending on the flow of work and so on. It is perfectly rational why you would do that. Do you have a rule of thumb for how much money you would expect? I am thinking of the slightly different example of defence procurement, where in order to get it right, the NAO used to say years ago that you should invest a little more up front. I am wondering whether, at the other end of the project, when you are looking at an evaluation of how well a project has gone, you have a rule of thumb for how much you ought to be spending, out of the total spend that you are engaged in, on evaluation.

Mark Lowcock: Evaluation is broken down into various components. We have an annual review, normally done independently, of progress with each investment. We call that monitoring. It has many of the same characteristics of evaluation. What many people typically mean by evaluation is: at the end of the time in which you have spent money on something, look ex post at the whole story and what the lessons are.

For that narrower definition, the amount that we aim to spend is modest. It has been rising quite significantly in recent years. Our view over the last 10 to 15 years, until the last two or three years, is that we have not been investing enough in that. I will calculate a number for you, Mr Bacon, on what the current number is.

Q234 Mr Bacon: When you say "modest", are you talking about a few hundreds of thousands or what?

Mark Lowcock: No, it is more than that. It runs into the millions. May I calculate it and send it?

Q235 Mr Bacon: While you are calculating it and sending us the information, perhaps you could also break down the total costs that you incur in the earlier stages of what you call "monitoring". It would be helpful to get the entire picture of the effective—whether it is or not is another question—oversight at each stage, including the final evaluation costs.

Mark Lowcock: I am very happy to do that.

Q236 Nick Smith: Mr Valahu, would you say again what the annual cost of the trust was? I missed it.

Philippe Valahu: To my recollection, £200,000, but I told Mr Phillips that I would get the exact amount to you after this meeting.

Q237 Mrs McGuire: Does the £200,000 cover staff costs and everything else?

Philippe Valahu: It covers everything, yes.

Nick Smith: That is just your salary.

Q238 Mr Bacon: You are quite a small unit at the centre.

Philippe Valahu: The programme management unit?

Joe Perkins: May I come in on this? If you look at paragraph 3.32 on page 43 of the Report, the PIDG Trust is a relatively small amount of the total administrative costs. We found that the total admin costs in 2012 were just under £24 million. Among that the central costs, which includes the PMU that employs Mr Valahu, were £6.7 million.

Q239 Mr Bacon: Slightly more, Mr Valahu.

Philippe Valahu: It is a different question.

Q240 Mr Bacon: You were answering the question accurately about the trust.

Philippe Valahu: I am happy to answer it.

Mr Bacon: The problem was that Mr Smith asked his question inaccurately, but you answered it accurately.

Nick Smith: It was about a response to an earlier question, which I did not believe.

Q241 Mrs McGuire: This is to get the comparison with whether or not this is value for money. On the salary ranges within this bigger figure—not the £200,000 that confused us all—do they relate to civil service salaries or are they market salaries?

Philippe Valahu: If you look at some of the companies where the boards of directors have put in place executive directors like me to assist them—InfraCo Africa, InfraCo Asia—their salaries will be capped, as mine is, and there is no bonus. There is nothing that goes with it.

Q242 Mrs McGuire: So that will be the market rate?

Philippe Valahu: Probably below market rate. Considerably below market rate.

Q243 Chair: It depends on which market and whether it is the development market.

Philippe Valahu: It is. The people who are attracted to those positions, like me, are not necessarily looking for the—

Q244 Chair: Can I ask a final question, Mr Lowcock? Given today's hearings, do you think you have been too hands-off?

Mark Lowcock: Well, there are a set of issues that we need to do a lot better on. How much hands-on we need to be will depend on how successful we are in drawing in a number of other donors. When we have the Norwegians there, I am confident they will bring a set of perspectives. If we have some of the east Asians Mr Valahu was talking about, they will bring a set of perspectives.

We will have to reach a judgment on whether overall all the voices worrying about value for money mean that we can do a bit less or we need to do more. But what we will be guided by is how best to allocate resources to this to drive the best value we can through the PIDG, bearing in mind the other calls on our resources as well. So it is absolutely something we are going to need to keep an eye on.

Q245 Stephen Phillips: Mr Lowcock, you very skilfully just answered a completely different question from the question the Chair asked you, which was whether you think you have been too hands-off. That obviously relates to the past. You have just answered in relation to what may need to happen in the future. I think the necessary import of your answer—I think you would do yourself some favours by accepting this—is that the Department has been too hands-off.

Mark Lowcock: We clearly, as I have said, missed some things that we should not have missed.

Q246 Stephen Phillips: So the answer is yes.

Mark Lowcock: If we had been more hands-on, I hope we would not have missed them, so in that sense the answer is yes.

Q247 Stephen Phillips: May I ask a final question? When you have heard back from SG Hambros about whether they are prepared to make a donation in relation to the money that they should not have had, will you let this Committee know what the answer to that question is?

Mark Lowcock: I would be very pleased to do that.

Chair: Thank you.