



International Development Committee

Oral evidence: [Jobs and Livelihoods](#), HC 685

Tuesday 21 October 2014

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Written evidence from witnesses:

- [Adam Smith International](#)
- [Donor Committee for Enterprise Development](#)
- [DFID \(CDC\)](#)

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Members present: Rt Hon Sir Malcolm Bruce (Chair); Fabian Hamilton; Pauline Latham; Jeremy Lefroy; Sir Peter Luff

Questions 1-53

Witnesses: **Luqman Ahmad**, Director of Private Sector Development, Adam Smith International, **David Norman**, Senior Manager, Sustainable Development Policy, SABMiller, and **Jim Tanburn**, Donor Committee for Enterprise Development gave evidence

Q1 Chair: Good morning. I should explain the thinness of our attendance; there are a lot of Public Bill Committees sitting simultaneously, which have dragged our members away. Members may drift in and out a little, but we are quorate, we are on the record and we are able to conduct our business. We have two panels and we are trying to finish by 12 o'clock. I do not want to inhibit you, but, at the same time, brisk answers will get us through in good time.

First of all, thank you for coming in. Could you perhaps introduce yourselves just for the record?

David Norman: Yes, I am David Norman and I lead on sustainable development policy at SABMiller.

Jim Tanburn: My name is Jim Tanburn. I am a co-ordinator for the Donor Committee for Enterprise Development. It has been suggested I also mention that I was involved somewhat in the ICAI review of private-sector development.

Luqman Ahmad: My name is Luqman Ahmad, and I am the Director of Private Sector Development at Adam Smith International.

Q2 Chair: Thank you all for coming in. This is the first evidence session we are doing on this particular inquiry. What we are looking at is jobs and livelihoods. We appreciate in the developed world people simply look at jobs; in the developing world, we do understand a lot of it is about how you improve the income of people who are self-supporting. Nevertheless, the first question is going to be focused on jobs.

From your perspective, where do you expect the growth of jobs to come from in developing countries, in terms of which sectors and, if you have definite views about that, what would be your evidence for identifying those sectors, and where the jobs could come from? Perhaps in the same breath, we have seen the success of many south-east Asian countries and, obviously, an expansion of jobs in the private sector. Can that be replicated in Africa? If so, how? If not, why not?

David Norman: I know the consumer-goods sector best, of course; SABMiller is a large international brewing and drinks company. We work in about 80 countries and we have about 80,000 direct employees there. On the consumer-goods side, the big opportunity here is that there are going to be 3 billion new middle-class people in developing countries by 2030. That creates extraordinary opportunity. There is a resource issue to manage in relation to that, but the opportunity there in terms of dramatic changes in diets, and also in appetite and demand for consumer goods, is going to transform our sector.

The key point to mention there is we need to think beyond simply the jobs that are in our own operations. Again, just talking about SABMiller, to give the example that makes this concrete, this is really strongly about the value chain and influence beyond our own facilities. Research conducted in 2012 by Professor Ethan Kapstein of INSEAD Business School and Wharton looked at SABMiller's operations in the whole of sub-Saharan Africa outside South Africa and he found that we directly employ about 13,500 people. That is significant, but the key statistic there was that our operations indirectly support some 765,000 jobs outside our own operations.

Chair: That is distribution and—

David Norman: Yes, exactly. It is within the value chain. For example, it is small farmers who are supplying us; it is small enterprises who are buying from us. That is a ratio of more than 50:1. It is vital to focus on all of those jobs within the value chain in terms of the contribution of business to job creation.

Q3 Chair: What you are implying is that all these middle-class people are going to be demanding all kinds of services. I just want to draw something out of that. You think, therefore, that jobs in the conventional sense can be created in significant numbers in sub-Saharan Africa.

David Norman: Yes, it is almost inevitable. It clearly needs to be linked with growth in productivity; it is about growth in wealth creation. However, this is a reflection of a transformation of sub-Saharan Africa's economy, which is certain to go ahead. The question is the pace and the question is about the rate we can tackle the enabling conditions that are currently holding back that growth.

Jim Tanburn: Your question about the difference between Africa and East Asia is perhaps especially interesting because many countries in Africa look to some of the Asian Tigers, if you like, as role models. The remarkable thing about the industrial policy debate is that

people can look at the same evidence and come to broadly opposite conclusions about whether it works or has never worked.

Broadly speaking, there are two things that need to happen. One is the political settlement, as they say: the ruling elite needs to have a vested interest in seeing the right sectors being picked and putting smart resources into those sectors to make things happen. The other thing that needs to happen is that the Civil Service in particular needs to have the capacity to make things happen and to adapt as things go along, because we could sit here and say which sectors look promising and next year the answer could well be different, so you do need a very adaptive approach that can handle the rapid changes that we see. Arguably, those two factors were aligned in Asia, but not in Africa until now. However, in the future that could be different, obviously.

Chair: It could be.

Luqman Ahmad: We often look at it in terms of income change, similar to how DCED view economic growth indicators. In the sense of, “Where do we see the greatest opportunity for income change growth?” we do see it in agriculture. That is where a lot of the different programmes have gravitated towards, not only because there are great incomes for income change growth, but a lot of poor people also reside in rural areas. You have agriculture as being a strong sector where there are opportunities to impact on livelihoods and incomes. Trying to improve the productivity within agricultural sectors can also contribute to jobs.

Q4 Chair: When we were in Sierra Leone, we were discussing aspects of that. When you say “agriculture”, do you mean improved yields or do you go right through the food chain—in other words with distribution, processing and packaging being part of the added value?

Luqman Ahmad: I would look at all aspects and, if you look at where you can improve the income of poor people, it is often going to be at the production end. If you look at improving efficiencies within the entire market, you will probably work with agri-processing and post-harvest handling and you are looking at the competitiveness of industries. It is not always easy to ensure that the benefits within a market of improved efficiencies are going to be accrued by poor people in the market, so there is always a challenge of ensuring that increasing efficiencies in markets will result in improved incomes for poor people.

Q5 Chair: Across the piece, how much is going to come from external investment and how much from internal investment? Jim Tanburn made the point about the elites having a vested interest either way. Do you have any judgment about that?

Luqman Ahmad: The FDI is still a pretty critical element—in particular if you are looking at trying to accelerate industrialisation within these economies. While rural livelihoods remain important and will be for some time, if you look at the trajectory these economies need to go on, there will be a requirement for industrialisation elements within their economy. It is likely that those skills and expertise will need to come from outside, so creating conditions to allow that is important. However, I would not emphasise it over the importance of ensuring that conditions are right for local businesses.

Q6 Chair: That is the next bit: what is the role of the private sector, the host Governments and, indeed, the donors? That is obviously central to what we are trying to work out. Where do they all fit in? What are the particular responsibilities for each of them to create the right environment? Mr Norman said optimistically that there is going to be an explosion of options in sub-Saharan Africa.

David Norman: Shall I start on the private-sector side? If I can give an example, to make this concrete, of how investment by a company like SABMiller potentially creates great numbers of new opportunities and market opportunities within the value chain, very simply, Nile Breweries is one of the subsidiaries in Uganda. Its Eagle family of brands has made the transition to work with local crops. Beer is obviously traditionally brewed with barley. That can be sourced from small holders, but more traditionally from larger agricultural operations. A transition to sourcing from local, resilient crops such as sorghum or cassava to make good-quality clear beer potentially is transformational. What that has done in Uganda is it has led to at least 9,000 smallholder farmers supplying our business in a completely new type of brewing process, using sorghum to produce quality clear beers. That is at a lower price point, so that can bring consumers in from the informal and illicit alcohol sector into contributing to the economy. That exemplifies the kind of things the private sector does best with its investment. It is about innovation: new approaches to create a new kind of a beer from a new crop that hadn't been previously used to brew beer. It is about rapid scaling of those innovations.

The thing to stress here, quite confidently, is this is always as part of our normal business operation. This is nothing to do with corporate social responsibility. This is all contributing to profit. We do it because it is part of our normal operations and it makes our supply chain more resilient. That is a good thing, because that is the thing that unlocks the scalability problem. The reason those examples are scalable—cassava brewing was developed in Mozambique; it has now moved across to Ghana and we are thinking about doing that in other countries—is precisely because it contributes to our bottom line.

That exemplifies what the role of the private sector is. There have sometimes been some activist challenges to DFID's and other donors' desire to work more closely with large companies. That is missing the point. This is not about using donor money, aid money, to do what we would be doing anyway. Frankly, it is faster if we just get on with it, and it is part of our normal investment processes, so we do it anyway. The key point is that donors and national Governments can complement that kind of company investment to leverage real additional value out of it. For example, what is holding that back are some of these enabling conditions: the availability of finance, skills, education and training.

Q7 Chair: You mean finance for your customers.

David Norman: Yes, exactly. It is about thinking, for example, "What does it take to enable smallholder farmers, who have been perhaps producing cassava or sorghum on a purely subsistence basis, to make a potentially difficult and risky transition into supplying a multinational company?" One example is, for example, land tenure. It is presumed that there is often a tension between companies wanting to grab land and the rights of smallholder farmers. In fact, in our situation it is tremendously important that smallholder farmers have secure tenure of their land, so they can think about investing and improving

its productivity. That again exemplifies the importance of the donor and national Government role in sorting out those basic enabling conditions that allow the private-sector investment to leverage the real additional social value at scale.

Luqman Ahmad: I was going to add, on the role of Government, that it is a challenging role they have to play in many of these places. They are between trying to ensure they are not standing in the way of the private sector and, at the same time, trying to create a conducive environment and also looking at protecting the interests of the public. You lay over those ideal sets of priorities for Government with local political economy—vested interests, the impact and the role between national private sector and the political elites—and it becomes much more difficult to influence these for the benefit of the wider private sector rather than a group of economic elites within countries.

Maybe it is a following question, but the role of the business environment is very important. There has been a lot of emphasis placed on that; however, it has not necessarily taking into account the political economy in these places.

Jim Tanburn: To follow on from both of those inputs, historically what we have seen is a deep suspicion in the development community of the private sector and most of its works. If you like, the pendulum has swung all the way the other way at the moment. It is a very, very positive atmosphere towards business. Perhaps there is not as much clarity as there could be yet, particularly building on what David was saying about who does what and who should do what and how much interests really coincide. Clearly, donors generally have come to realise that growth and jobs will come through the private sector. This cannot be ignored or discounted. Large businesses especially have become very socially aware and developmentally active, so you see a convergence, but, nonetheless, the interests are not identical.

For instance, development agencies would typically want to crowd in having competition to bring prices down to improve services and so on. Businesses are less keen on having competition crowded in for them. There are mismatches that perhaps have not been fully explored just yet, but overall the whole partnerships format, which is not quite what David was talking about, is very popular at the moment.

Q8 Jeremy Lefroy: I will just draw attention to entries in the Register of Members' Interests. Could we turn to this idea that perhaps it should be income, rather than jobs or livelihoods, that is the key focus? Would any of you like to comment on that?

Jim Tanburn: Perhaps I should lead the way, because that was the gist of our submission. Jobs are clearly a top concern for partner Governments in many ways—and for good reasons. If you are aiming for the poor and the poorest, the problem we have in practice is that they live their lives in very different ways, typically, to how we would conceive of “a job”. Typically, they have multiple income streams. They have multiple risk-reducing strategies; none of them are ideal. Most of them are rather inefficient in a way, which means that if a development programme can give economic opportunity, people will take that, but they probably will not abandon their other income-generating streams either. They will still send their son or daughter off to the big city to go and earn something and send something home and so on. There is a lot going on and the concept of a job is quite difficult, in practice, to map and measure in a way that is satisfactory.

Luqman Ahmad: I would agree with Jim. We have found that jobs are a good reflection of impact from, say, foreign direct investment looking at industrialisation, but, in terms of small-business development, where people have a diverse strategy to generate income, it is likely that they are earning income from various sets of activities, which may add up to what we would term a “full-time equivalent” job, but I would not classify it as a job as it is perceived here in the UK, with a formal contract and terms and conditions.

David Norman: It is about conceiving of jobs in a broader sense, and that links the two together very closely. For example, when we are talking about entrepreneurs here in the UK, people have a very particular image of someone innovating, fast, dynamic, probably young and already rich. They contrast with the entrepreneurs who are small-scale retailers who buy from us, particularly in Latin America. These are often women living close to the poverty line. They have a little stall—a *tienda*. They are perhaps buying from us just a very small number of crates of beer per month. These are what you might call survival entrepreneurs. These are people who do not have another job opportunity, who have chosen to set up a stall and sell our products and other products in a very poor community close to the poverty line, because that is virtually their only choice.

It is quite helpful to think about what it takes to invest in those people’s ability to turn that from a simple stall into a growing and thriving business. That is entirely realistic, because SABMiller has a partnership with the Inter-American Development Bank in Latin America to invest precisely in that, in tens of thousands of small retailers. Again, there is a business case for that. These are our customers; they are buying from us, albeit at a very small scale. However, enabling them to grow and prosper in their livelihoods is also good for our business. In a sense, it bridges this gap. It is possibly a somewhat artificial divide by purely conceiving of a job in the way we do in the UK.

Luqman Ahmad: I would like to also add that, as development assistance is moving towards more challenging environments, conflict and affected countries, it is looking at targeting beneficiaries, disadvantaged groups—women, youth, girls—and economic empowerment. In this context, it is clearly shifting towards a programming responsibility that would be better captured and reflected by income change than jobs. Jobs may have been an important indicator for programmes that were focused at capital cities’ industrialisation or foreign direct investments, but, given the trend of where programmes are going in the more challenging parts of the world, income change is probably the better reflection.

Q9 Jeremy Lefroy: Do countries in which DFID operates have enough information about what is going on and what the income streams are and, therefore, what the best ways are in which people can be supported to grow those income streams?

Jim Tanburn: Perhaps I can start on that. What we are looking at is a way of operating that aims to be catalytic and, if you like, to leverage private-sector activity—such as David’s company and others—in order to have pro-poor change. That is quite a different way of operating to building a motorway or something like that; it is necessarily somewhat experimental and innovative.

The reason I am mentioning that now is that one needs to have quite a clear line of sight to where you think you are going to get to and then measure, as you go along, whether you are getting there or not. Ex ante, before the programme starts, it is actually quite difficult

to predict how things are going to play out. You can do research, but there is always a danger of paralysis by analysis: you do too much research. In practice, it is often more effective to learn by doing, to intervene, see what happens and go forward in that way. You build understanding over time, because it is such a dynamic, fluid situation.

Lugman Ahmad: I would agree. I would also add that Governments do not have enough information on what the barriers and constraints are to growth. That is fairly common across a number of countries, so development assistance playing that role is quite important and critical.

David Norman: There is a small point I might add; it relates back to the question about roles. It probably is not appropriate for companies on a wide scale to be involved in measuring. We of course need to measure the social impact of our investments, but the primary purpose of those investments is generating profit. We have tracked the best examples—such as the Nile Breweries example I gave you—over five years. Regarding the income of those farmers who transitioned their sorghum farm to supply us, the measurement of their livelihoods was that their disposable income increased sevenfold over that five-year period. That is an extraordinary increase.

When we have looked at more environmentally focused programmes, like in Iran or Rajasthan, we have been investing in helping farmers grow their productivity and capture more water to ensure that the water in the wet season is available in the dry season. Again, they have increased their productivity of the land by about a fifth. They have increased their water-use efficiency by a third, but, crucially, that has been linked to livelihood growth. There has been a 21% increase in disposable incomes over the past three years.

That is fascinating. You can see real win-wins for the business in terms of securing our supply chain, for the environment in terms of water security in that area—that benefits everyone, not just our business—but also, crucially, because water and prosperity are linked, an increase in disposable incomes. Those are anecdotal; they are examples at a project level. What would be tremendously helpful would be for donors to be supporting Governments to measure systematically those kinds of examples in a way that develops learning insights into what makes the difference between some projects or programmes that have better livelihood impacts and some that have marginal livelihood impacts.

Q10 Jeremy Lefroy: Given that it is quite clear that it is not just about jobs and livelihoods but also about income, does more need to be done, in the education system particularly, to make it clear that there is no hierarchy where having a full-time permanent job, which after all is extremely rare, is really the only thing that an education is training you for, but that actually there are many ways of having a reasonable family income in the future? It is not just about jobs; it is also, if you like, about almost portfolio careers or different sources of income, and these are of equal value. It does seem to me that often people are trained in the education system just for a job. Often that is probably likely to be a job either in the public sector, which are very few and far between, or in a large corporation, and anything else is seen as a failure.

Lugman Ahmad: Yes, education is important. We are starting to see increasing programming focused on education and skills and its relation to income generation and transition into a formal economy. There are programmes that are soon to be contracted

that will look at youth employment and economic opportunities in northern Nigeria. There is also programming that we deliver on behalf of DFID in Mombasa, looking at youth employment there, and, again, looking very closely at skills. This is looking beyond basic education, looking at the skills required by the private sector to help improve the transition to the private sector.

It has a very important role to play in ensuring, in countries in which demographics are shifting towards much younger populations, they are able to benefit effectively from the demographic dividend of having young, productive people. If the education system and, let us say, the market that is producing skills do not work effectively, you will have potential opportunities to radicalise youth or draw youth into unproductive parts of the economy. The link between education, skills and youth is very important in the context of the changing demographics in many emerging countries and also in the context of radicalisation of youth in some parts of the world.

Jim Tanburn: To build on that, the evidence is that where the opportunities are there, the culture can change quite quickly. You referred to the idea that people aspire to education and professional jobs or whatever. In a society where there are a lot of economic opportunities outside the formal system, that would change very quickly. What we are hoping for is economic transformation and rapid growth, where there are lots of opportunities and people would not be quite so bothered about getting the formal education, because there are other ways they can go. What happens in the societies you are describing now is that there are not that many opportunities outside, so people aspire to something more formal, because there does not seem to be any attractive alternative.

David Norman: Going back to those numbers from Professor Kapstein, if there are 50 jobs outside our operations for every job for someone within our operations, that suggests that that is where the balance of effort could be in terms of skills. The reason the Inter-American Development Bank wanted to partner with SABMiller across Latin America is precisely about filling a gap in that system. The whole point of that partnership is about basic business development skills for very small enterprises running really basic stuff in many cases. We have a point in which we reach each one of those businesses, through the supply side, so the opportunity there was to simply upgrade some of their most basic business skills as very small-scale enterprises. If the formal education and training system could start to fill that gap, there is a tremendous growth opportunity there.

Q11 Jeremy Lefroy: Finally, Chairman, there seems to be, certainly from my experience, a very big divide between a formal job and everything else. Often that is characterised by being part of a social-security system. You will find that people who are in employment have a social-security fund or something like that to which employee and employer contribute. Is one way of drawing the formal and the informal sector closer together—and therefore encouraging people to see it is not just about jobs; it is about incomes and livelihoods—for Governments to extend these systems, which are often savings-based systems, deliberately to everybody so that everybody can contribute? At the moment, certainly in some countries, you are excluded if you are not in a formal-sector job and, therefore, you are being marginalised simply by not being employed by somebody, even if you are self-employed.

Lugman Ahmad: Yes, you mentioned you have been to Sierra Leone. You probably picked up there NASSIT, which is the national-insurance and social-security organisation. Yes, they collect only on formal employment and people who are not formally employed fall outside of that. You have significant percentages of populations that are outside the social net.

Unfortunately, many poor people in countries start looking to Government for these solutions, and it is unfortunate that Governments are not in a position to offer those types of safety nets. I am also not sure how much Governments can afford, but there is a lot of evidence that Governments can create the conditions that will ensure their economies will grow if they focus their efforts on social protection, education and infrastructure.

Q12 Jeremy Lefroy: In some cases—it may have changed in Tanzania—in Tanzania, companies used to pay into the social-security fund for casual labour, but it did not go to the account of that casual labourer. It was just an additional contribution to the fund, which in the end would get distributed to the formal sector. That may well have changed now, but certainly in those days it was almost a bias against casual labour that the employer was paying something into the fund, but that was not going in any way to that person who was providing that casual labour.

Lugman Ahmad: There are probably a lot of question marks around the competency of many of the national Governments' ability to manage these funds that they have been collecting and investing sufficiently. In some countries, I have seen not a lot of confidence in the Government's ability to actually pay out. In 15 or 20 years, will people be able to count on the systems that have been newly introduced? At this point, there is not a lot of confidence that the Government will be in a position to pay out, based on the various competing interests on the Treasury, unfortunately.

Q13 Peter Luff: Turning to some of the issues around the Economic Development Strategic Framework published by DFID in January and discussing that, one of the key pillars is to support the enabling environment for private-sector growth. In the developing world, what actually are the most important aspects of the enabling environment?

David Norman: The overarching point is about bringing together and multiplying the benefits of what any one company or organisation is doing. Companies are necessarily geographically bounded. We can develop a set of programmes in particular areas where we are, but the key opportunity here is leveraging and, as I said earlier, making the most of what we would be doing anyway—investments we would be putting in anyway—for wider social and sometimes environmental benefits. That is broadly about market access. If we are creating a market opportunity, for example, for cassava or for smallholder farmers, who were formerly subsistence farmers, now to be supplying the formal economy, the key question there is how that can be expanded geographically to other areas, for example, with much less infrastructure that we simply cannot reach. The infrastructure question is still fundamentally linked, of course, to market access.

Finance is pretty fundamental as well. We have looked at small-scale farmers in Mozambique and our initial research is that there is clearly a livelihood benefit there. One of my colleagues visited there and spoke to one of the women farmers, who was holding in her hand her payment for her cassava that she had bought from us and said she had never

had as much money in her life as what she was holding in her hand now; it was not a huge amount at all. However, there is a key difference between that income boost and change in terms of assets. What we have not managed to see yet is any significant increase in assets. Of course, assets are absolutely fundamental in that situation in securing the opportunity for others to invest in increasing the productivity of that land. The credit and finance side as well as the market access and infrastructure side and education and training we talked about earlier are key elements for us.

I touched on land tenure earlier; that is really fundamental. As a small farmer, if you do not know that you have guaranteed rights to own your land in five years' time, what incentive is there to invest in improving its productivity fundamentally? That is a big problem for us as a business, because we are effectively co-investors with those owners of that land, those smallholder farmers who own that land. In order for us mutually to be able to invest in improving its productivity, their land tenure needs to be absolutely secure.

Q14 Peter Luff: That is quite a long list. Is there anything Mr Tanburn and Mr Ahmad would like to add to it?

Jim Tanburn: My take would be a little bit different. The economic transformation is like an onion: you peel back one critical constraint and you discover another one. Sometimes that critical constraint will be related to the business-enabling environment; sometimes it may not. You do get enabling environment interventions that are successful but do not have any effect, because they did not address the binding constraints at the time. As part of a larger toolkit or range of options it is extremely important, but as a sole way to get results it may or may not be successful.

Luqman Ahmad: I would add that it is not so much the specifics of what makes a good enabling environment in terms of numbers of steps and procedures and red tape. I would view a well-functioning enabling environment being based on the quality of information that is used in forming policy and the quality of the debate and dialogue between the private and public sectors.

In environments in which the Government has effective dialogue with the private sector, we see that ultimately the issues that are important to the private sector are discussed, addressed and responded to in an ongoing process rather than the piecemeal way of, "We will work on this part of the enabling environment and assume that will solve the problem." It is really an ongoing private-public dialogue that needs to work effectively. Where that dialogue works effectively, we see that those two qualities—three qualities if you include civil society—push towards an improved enabling environment. Many programmes are focused too much on some of the mechanics rather than the actual substance that informs improving the enabling environment.

Q15 Peter Luff: I do not quite understand what that means in practical policy terms. What would be different to address that issue?

Luqman Ahmad: Say, for example, that in a traditional enabling-environment reform programme, someone would have identified, "Right, we think the number of steps to register a business is a constraint," or "We think the number of procedures you need to export goods is a constraint", by all means those are important issues. If you speak to the private sector, however, you often find there are much more complex issues.

Until the Government can effectively engage and understand what the private sector is saying the constraints are, it is usually chasing something that necessarily will not have an impact. An example could be that you are looking at tariffs on imported goods. There needs to be quality of debate on what the benefit is of the increased revenue for the Treasury for tariffs versus what the benefit to the economy is for reducing tariffs. The quality of information that needs to go into that debate is critical; otherwise the decisions you find are not well founded and the results are not as people expect.

Peter Luff: Partly it is an issue of Government capacity as well.

Luqman Ahmad: Government capacity and the private sector's willingness and capacity to engage with Government.

Q16 Peter Luff: Do you mean as individual companies or through organisations representing the private sector more generally?

Luqman Ahmad: Business membership organisations are an important part of that. In fact, we are running two programmes in which we are working on this private-public dialogue. Particularly in Zimbabwe at the moment—where there has been tremendous mistrust between the private sector and the Government—improving the enabling environment, rather than being a single issue to tackle, is about trying to rebuild that trust between the private sector and the Government. We see that as critically important.

Q17 Peter Luff: Thinking of the constraints to job creation in the short term and the structural and economic transformation necessary to these economies, what can DFID do best to address these issues? Does the Economic Development Strategic Framework address these issues adequately? What can be done?

Luqman Ahmad: There are a lot of things that DFID can do and does do. What we have seen in frontline delivery on behalf of DFID is that each country requires its own unique solution and mix of responses. By the nature of programming design, where you have programmes that may have been running for a number of years, new programmes come in and old programmes come out. It is hard for them. Where there should be greater emphasis is ensuring the sum of the pieces adds up to substantial reforms, so making sure that the mix of responses that DFID has taken are the best for that country for those specific constraints they are looking to resolve.

Jim Tanburn: To add to that, sometimes the language does not make very clear what DFID has control over and what it does not have control over, or what it can influence but not ensure, if you like. Sometimes it would be helpful, perhaps, to clarify where that defining line is.

It has been discussed in other fora, but there is also still quite a lot of upfront loading of the design process at the expense, perhaps, of managing the implementation. Again, it is not really about designing the perfect thing and then letting it do its thing. It is much more about experimenting as one goes along and finding what the critical constraints really are in practice and then addressing those, so it is a much more dynamic, ongoing process rather than fire-and-forget, at its extreme other end.

David Norman: Some elements that we have just discussed are quite traditional parts of existing development programmes going back in time. There is great experience in DFID on infrastructure, finance credit and education and training, of course. If you accept the case that those are crucial elements of the enabling environment that we, as businesses, cannot take care of but that donors, working with Governments, can substantially affect, there is loads of ongoing experience.

What is new is the focus on thinking systematically about quite complex partnerships in which there is an attempt to leverage more systematically what private-sector investments bring, alongside what national Government and local government bring, alongside what NGOs bring and alongside what the donors bring, and that is quite new. That is quite a substantial change of mindset since the days when the Millennium Development Goals were set, when the private sector was virtually excluded from that process and the imagination of what the private sector could bring through its normal business operations was not part of that thinking.

Credit to DFID that it is thinking about that, and it is probably ahead of the pack, looking across all donors, in thinking about that. However, it is relatively early days. It is going to require a lot of listening, a lot of experiment and documenting what works in practice in those kinds of partnerships in order to improve those processes. However, there are good examples of DFID doing that. Two SABMiller directors were on the Secretary of State's delegation to Tanzania roughly this time last year, a trade delegation, the first one that involved quite a few large private companies as part of that. That is a good model in terms of listening and two or three-way dialogue with national Governments as well.

Q18 Peter Luff: It is often said in this country that one of the major constraints on economic development and job creation is the regulatory environment. Can you characterise the regulatory environment and whether there are any particular issues that need to be addressed, if it is possible to do such a thing in such a short session?

Luqman Ahmad: I have recently returned from the DRC—Democratic Republic of Congo. There is a country in which the regulatory environment is so poor that—

Peter Luff: It is lacking one.

Chair: It is non-existent.

Peter Luff: Yes, it is non-existent.

Luqman Ahmad: It is overdone, in the sense that there it is used as a way through which the bureaucrats can seek rights and seek benefits. It has had such a negative effect on transactions between the public and private sector—between the public, in the broad sense, the private sector and the Government. You have this tremendous mistrust and corrosive relationship between the Government and the private sector. In that sense, you would say overreach by Government and discretionary power has had a negative effect on individuals' confidence to engage with the Government and to invest in an economy where decisions are made arbitrarily.

A perfect example where we are working would be in the coffee sector in the DRC. We identified that in order for Congolese coffee to be competitive, they need to reconsider

their export tariffs on coffee. Although officially there is a 0.5% tax on coffee exports, as there is in other countries in the region, informally they are collecting about 6.5% through various institutions and various groups who decide they want to tax coffee. There is a perfect example where the entire coffee sector has lost its global competitiveness as a result of a very aggressive rent-seeking environment. We have been working with the various stakeholders to try to improve an understanding of the effect of this very predatory rent-seeking regulatory environment on production, incomes, jobs and exports. It is challenging, because you have a lot of vested interests who are benefiting from that very aggressive rent-seeking regulatory environment.

David Norman: There is a caricature as well that businesses automatically want less regulation. Actually, it is about wanting good regulation. In these kinds of settings, good regulation is tremendously important to us. Strong, unambiguous property rights for all are absolutely fundamental to the ability to do business. Where you are looking at the right sort of environmental and labour legislation, levelling up standards across the board, across domestic companies and international companies, can be helpful—again, if it is done in the right way.

Obviously, this is basic stuff. Good regulation has to be simple, unambiguous, clear and fundamentally predictable. That is so fundamental. If you are looking at some of those innovations that we have invested in, for example in developing clear beer from cassava or sorghum, initially in the early stages that is quite high-risk and potentially quite low-margin. If you were just hit by a completely arbitrary out-of-the-blue excise-tax change, that can totally change the balance of the returns on that investment.

The problem for the country in terms of the social consequences of that is that we, as companies, have to evaluate that kind of political risk when thinking about making an investment. You will be weighing up, of course, different country settings, thinking about what the chance is, based on historical experience, that this country is going to make an arbitrary change in regulations. That is a problem in terms of making new investment. It biases the calculation away from the imperative that we want to make those kinds of investment.

Q19 Peter Luff: I find that a very compelling argument. Obviously, it is common sense, I agree. However, where you encounter Governments not pursuing those kinds of policies, deliberately or accidentally taking a hostile position towards the private sector, how can DFID respond? We are in danger of a colonial intervention-style approach, telling a Government how to organise its economy. What does DFID actually do in these circumstances, when it encounters that kind of obstacle?

David Norman: DFID has greater independence than we do, as companies, in making the case, based on evidence, based on specific international examples, of settings in which the right kind of business-friendly framework has in practice enabled those companies to benefit rapidly from investment. That is one simple and clear starting point.

Luqman Ahmad: I would agree. DFID's role and where I have found DFID most successful has been to provide evidence around the impact of a poor business environment on the economy. If you were to make a compelling case, even if there are vested interests in the current status quo, there has been a demonstrated impact where Governments have

been prepared to change behaviour once they realised that the benefits were greater than the interests of a small group.

Jim Tanburn: My comments are mainly really about the donor community as a whole. The membership of the Donor Committee includes DFID, absolutely, but it also includes 20 other donors, so I am generalising a little bit across the piece. I could not comment specifically on DFID.

Q20 Peter Luff: Just thinking particularly of the role of exports in creating jobs and livelihoods—you have hinted at the danger of arbitrary tariffs—are there any particular steps we could take to encourage exports from countries?

Luqman Ahmad: Exports are critically important. Everyone has been following developments in Sierra Leone. Recently, a London mining company declared bankruptcy and there goes, immediately overnight, export earnings for the country. Besides the jobs that it will be linked to at the mine site, it is going to have a huge impact on the Government's foreign exchange earnings; it is going to have a huge impact on their ability to purchase imports. We are already seeing significant impacts at a macro level that relate to inflation and their ability to finance their own budgets.

Exports play a critical role, not just on jobs but actually to ensure macroeconomic stability. As we are seeing in Sierra Leone, the reduction in exports will probably have a greater effect on hyperinflation and the Government's ability to finance imports than purely on jobs. Yes, exports are very important. What can donors be doing to support that? It is probably partly about the enabling-environment issues but also, more widely, on those other factors that influence investment. If you look at where investments flow into emerging economies, a lot of it is related to resource extraction, whether it is oil, gas or mining. Ensuring the enabling environment and the governance arrangements are well balanced for extractive industries would potentially attract greater investment in extractive industries, which would then lead to a greater amount of exports. Although I do not have statistics on hand, I would imagine that in emerging countries natural resources contribute significantly to the export revenues of many of these countries. More could be done on extractive-industries governance.

Q21 Peter Luff: In evidence to the Committee, we have been told that we do not see entrepreneurs, particularly in Africa, making enough investment in sectors that require low skills, such as garment manufacture. There is a reluctance to bring those technologies into place to create jobs. Is that the case and, if so, why is there this entrepreneurial gap in development?

Jim Tanburn: I am not sure if I heard that.

Peter Luff: I am not sure whether I understand my question. I am told, rather surprisingly, that entrepreneurs are not taking advantage of low-skill technologies in sufficient numbers. The extractive industry is fine; high-tech is fine. However, there is not enough investment in mid-tech and low-tech industries where you can actually create large numbers of jobs. I find that very surprising.

Jim Tanburn: One response to that in the academic community is that it is about the ability to organise. If you want a factory with a couple of hundred people, you actually

need to be quite good at organising them, dividing the jobs up and managing the whole thing. If you are in a country that is not very industrialised, people do not have that skill of organisation. The Bangladeshi garment industry was built on a study tour by 150 Bangladeshis to South Korea, we are told, where they went and spent some months in South Korean factories seeing how the Koreans organised themselves. When they came back, almost all of them started their own factories, which are the foundation of the Bangladeshi garment industry today. It is that ability to manage and organise that is as important as any skill or entrepreneurial flair.

Luqman Ahmad: In terms of what could be done to improve innovation within entrepreneurs and support entrepreneurs to innovate, there have been previous attempts at doing that through Government incubation programmes or SME-support programming. Many of those have not proven to be very successful. They have not proven to be very successful in the sense that they were focused on the Government being an enabler and a supporter of innovation in a context in which capacity within Governments themselves is weak. There is an increased focus on that within DFID. There are some programmes that are being looked at specifically looking at supporting innovation and entrepreneurship.

The challenge will be in trying to support an ecosystem. How can we create an ecosystem that will support innovation rather than supporting a firm or an individual? There have been many instances of successful interventions that have supported a firm to innovate. It has been harder to produce the supporting environment in which innovation will thrive.

Q22 Jeremy Lefroy: We have had evidence from DFID, for instance, who say new jobs will come from better working services and manufacturing, as in every country that is successfully developed. On the other hand, we have had organisations, particularly NGOs, saying that there should be a much greater emphasis on agriculture, particularly smallholder agriculture, because that is what a very considerable percentage of the poorest rely on for their incomes. What are your views on this? Is this “either/or” or “both/and”? Is DFID’s stress on services and manufacturing something that is sensible?

Jim Tanburn: If we are talking about Africa primarily, most poor people are in agriculture now and industrialisation is not going to create the numbers of jobs that are needed by the young people who are coming into the labour market now fast enough to meet the need.

We debated this at our annual meeting this year. It was very vigorous. One camp was saying agriculture in the foreseeable future has to be the focus; the other camp was saying there are big opportunities now. Asian wages are going up a lot, so this is an opportunity for Africa to compete because wages and incomes are still much lower, so factories could start in Africa and employ people. The numbers are still thousands and tens of thousands rather than millions, so what we are seeing is a short-term strategy and a long-term strategy that have to go hand in hand.

David Norman: To build on that, if you are, as DFID is, interested in the livelihoods of the poorest in sub-Saharan Africa, of course that requires a significant focus on agriculture. The key point, I would stress, again from our value-chain experience, is that these are not separate economies. Sometimes the evidence is presented as if there is just an entirely smallholder or small, informal economy that is somehow completely disconnected from the larger business economy. In practice, our value chain shows that there is a huge untapped opportunity still—Grow Africa is focusing on this—in the links

between that smallholder agriculture economy in sub-Saharan Africa and the other parts of the economy, including consumer goods, other industrial sectors and even the service sector. As those large numbers of middle-class people grow within sub-Saharan Africa, those links are going to become even stronger. It is indeed a “both/and”, because those economies are fundamentally not two separate, disconnected economies.

Luqman Ahmad: I would agree. Maybe the only point I would add is, in respect to manufacturing, what is often overlooked or not considered significantly enough is the role of the infrastructure plays in ensuring that you can create jobs in manufacturing. If you were to go into a country and say, “Why have you not been able to create these light-manufacturing garments and so forth?” often you will hear responses back around, “I do not have reliability of power to be able to make the investment that is going to be required. While, yes, I have competitive labour rates and I can even make the investments to improve the productivity, if I do not have reliable power I am not going to be able to meet my orders and compete.”

There are broader constraints that affect an individual’s willingness to invest in manufacturing. There is some importance in links to infrastructure if one is to look at trying to stimulate growth in manufacturing.

Q23 Jeremy Lefroy: Very much bearing out the point that Mr Norman was making, I suppose food manufacturing is often the largest manufacturing sector. Certainly in the UK it is the largest manufacturing sector. The link between agriculture and manufacturing is absolutely there and it is not an “either/or”. Are there any examples from what you have seen of DFID’s programmes in terms of improving the enabling environment for the private sector, job creation and livelihood creation that have had a really positive impact and worked and some, perhaps, which have not worked?

Luqman Ahmad: I can speak on some of the programmes that we deliver on behalf of DFID. In northern Nigeria, we work on a programme that is a growth, employment and markets programme, which is focused on the enabling environment; it is focused on land reform, tax reform and facilitating investments. We have definitely seen benefits just purely in terms of tax. Trying to reduce double taxation and harmonisation between federal and state taxes has resulted in significant savings for poor people. There is an example of where an intervention was focused on trying to improve not tax collection on behalf of Government but trying to improve a sensible tax environment that would stimulate growth in the economy. We have seen direct correlations between the work we have done on improving the tax environment with income change.

Similarly, we have been working on land reform, where we have seen links between increased securitisation of land leading to increased confidence for people to invest, whether it is in a market stall or in their home, and we are starting to see links between land reform and formalisation of land tenure with people’s willingness and ability to generate and make investments. We are definitely seeing links between improved enabling environment in tax and land and improved incomes and investments.

Q24 Jeremy Lefroy: Are there any other examples of job-creation programmes that perhaps DFID has been involved with, directly or indirectly, which have seemed to have had positive or not positive outcomes?

Chair: Is the answer no?

Lugman Ahmad: I could probably go on.

Chair: Please do.

Lugman Ahmad: There are many examples of where business-environment reform programmes have been quite useful. I can think of an example in Lesotho where DFID has historically been quite instrumental in supporting the Government to negotiate and ensure preferential trade agreements with the US through the African Growth and Opportunities Act. That intervention to support the Government in its deliberations and lobbying with broader trade agreements was able to support and sustain, I believe, something like 40,000 jobs.

People in Lesotho can probably speak for themselves, but everyone would agree that, without those preferential trade agreements with the US, it would be very unlikely that there would be any garment manufacturing in Lesotho, and Lesotho is one of the largest garment manufacturers in sub-Saharan Africa. It is very closely linked to a Government's ability to engage in policy formulation. I do not know whether you would classify that as enabling environment or trade policy, but there is an example where a policy is able to sustain 40,000 jobs.

Q25 Jeremy Lefroy: In terms of direct intervention, where it is not just about the enabling environment but actually DFID getting in and supporting particular programmes or businesses, how would you suggest that DFID goes about this in the future? Are there changes to the types of programmes that they support?

Jim Tanburn: In the development community as a whole, there has historically been perhaps not enough clarity about what the logic was of the programme and quite big leaps in programme logic. The trademark southern Africa one has been paraded quite a bit, but this idea that you liberalise trade and relieve poverty is a big jump in the logic, which one would want to see unpacked a bit more. It would be nice to see an understanding of exactly how one thing was expected to lead to something else.

Generally, honestly, the logframe format has not encouraged that clarity, because it groups together all the outcomes often into one box, whereas in reality there is a whole sequence or cascade of events that are expected to happen as a result of the programme intervention. What we have found in the Donor Committee is that it is really helpful for people to articulate much more clearly and in a bit more detail what they think is going to happen and why they are doing what they are doing, so that then, in real time, they actually can tell whether it is happening in the way they hoped or not. That probably applies to the development community as a whole. We have tended to rely on rather broad statements, rather than thinking really, in reality, how it would happen.

Lugman Ahmad: There is a lot of emphasis on the World Bank's Doing Business indicators. They have been fantastic at highlighting the relationship between the enabling environment and growth. However, many of the responses that have come from the Doing Business generation of programmes have been very mechanical, focused on systems, business registration, steps, procedures, forms and signatures. It has taken

emphasis away from what it is that will continue to drive improvements in the enabling environment.

I go back to my earlier point, which is that if we agree that the enabling environment is a critical factor to facilitate growth in the economy, then rather than looking at the mechanics around specific issues, which we can address individually, we need to look at the ecosystem or the environment or the system that drives improved business environment. It is the ability of the private sector to articulate and engage with the Government. It is the Government's ability to understand, receive information and formulate policy. It is that policy-formulation process that is broken in many countries. It is the ability of the public to be informed and engaged through the media. Through the media and the interactions with the public, you see a lot of movement and influence on the political space.

I would say we probably need a bit more of a move towards a recognition of the complexity of shaping and continuing to reshape a business environment instead of a programme that is focused on the mechanics of solving this registration issue or that specific issue, which will maybe demonstrate benefits in the short term. However, the broader dysfunction in these places has to be addressed, which is this public dialogue and engagement. If you think of the UK, we see that working fairly well. We see the Government respond to information that is based on evidence; you see the private sector able to organise itself and engage Government in policy. Rather than an individual saying, "This is a problem", what makes the business environment here successful is the interaction between the private and the public sectors.

Jeremy Lefroy: One thing that strikes me is that there is almost a lack of passion in this area. We are talking about fairly dry things at the moment and yet actually these are incredibly important for people. Yet when you have inquiries into health or education and you are talking about vaccination programmes, there is a real passion about it and people really appear to be committed. On the other hand, we very rarely hear, either from the advocates or from DFID itself, the same element of passion which, seems to me, equally if not more important. I would not necessarily expect you to agree or disagree with me.

You, Mr Norman, spoke about an eleven-fold increase in incomes; presumably that was the AECF-supported sorghum programme in Uganda, which Mrs Latham and I saw up in the north of Uganda. That seemed to me to be a very positive thing that we do not often hear about. Whether it is that or the land securitisation programme in Rwanda, which brought land titles to pretty much every family in Rwanda, all of these things are extremely important but yet there is very little passion about them.

Perhaps that is a comment rather than a question, Chair.

Q26 Chair: People are passionate when they get work and raise their incomes, I guess. Going on from that, actually, DFID—it is unfair to say it has “upped the rhetoric”—will say it has increased its engagement with the private sector. We have a whole list of things they claim they have done, but, to be honest, a lot of them are about talking to people, as far as I can see. They have set up advisory boards and they are managing relationships and

they are discussing partnerships—although they do have 18 private-sector development advisors, which is a very specific point.

How well does DFID work with the private sector? Does it have the capacity to interact? Let us be honest: a lot of people have said that DFID's DNA is fantastic at development, but it does not instinctively have the same sort of feel about how to engage and interact with the private sector or, indeed, what its appropriate role is. Obviously, perhaps you, Mr Norman, can say from your point of view. Do you see any change in the way DFID operates? For you, Mr Tanburn, how do other donors perform by comparison to DFID—better or worse? Obviously you are across the piece, so perhaps we will take it from there.

David Norman: We have seen a strengthening of the approach. You characterise it as perhaps a lot of talking. Given the transformation from the Millennium Development Goals, where the private sector was virtually invisible, to the whole process around Sustainable Development Goals, where there is a far greater openness to the diverse ways in which the private sector contributes to development, and given this that is a relatively new area—I do not just mean in DFID; this is across donors—within the development discourse, it is really good that DFID is in a mode of listening. That has been quite apparent, certainly over the last 18 months or so. There have been open doors. We have had lunchtime discussions with senior advisers across all the different issues, not just with people within DFID who are focused on private-sector development. People who are absolutely focused on livelihoods and nutrition have also come together in conversation within DFID with, for example, representatives of SABMiller. That is all really good.

It is also good that the basics of the process have been aligned, so we have a key contact within DFID now who brokers our engagements and connects our engagements with different departments. Again, that is really good stuff; it is not that we are confined to the conversation with private-sector advisers, but we are really getting into the heart of sharing our experience and learning ourselves from, for example, environment advisers and social-development advisers. All of that is a shift and it, in a sense, goes beyond the economic development strategy towards a broad process of openness to learning from the development experiences, which are often quite different, within the private sector, compared to from NGOs or within donors. That is broadly good.

Jim Tanburn: Perhaps what happens is we underestimate the skills that are required, at the same time, to make absolute sense to Government, to development agencies and in development terms and make absolute sense to business as well about the same proposition. You are talking about, to be honest, different cultures, different vocabularies, different timescales, different objectives and different ways of thinking about things. You need to identify things to do that, as I say, are developmentally and commercially very sound. That is quite an unusual talent.

DFID has recruited many private-sector advisers who have private sector experience, and that is very important. I used to work at Shell, actually just up the road from here, and I left Shell to pursue a career in development because that is what I was passionate about, and I have not regretted that for a minute. However, my experience in Shell was extremely valuable to understand how businesses think and operate. Perhaps that is the biggest challenge: to find people who can do that.

Luqman Ahmad: At the heart of it, within the organisation they probably need a bit more confidence that working with the private sector, in particular large firms, will result in

income change and benefits for poor people. There are always question marks around that to say, “Right, if you can improve the conditions for the private sector, how will that ensure that poor people within these economies will benefit?” There are always question marks around that. I think also, from a reputational-risk standpoint, while they are very keen to engage with the private sector, they also have to be cautious in assessing its engagement, such that, if there is additional scrutiny on the organisation to say, ‘You work with private-sector Company X’, did they really need your support and did they really do something that benefited the poor people, or did they do something that they were always going to do and that was always going to be profit-motivated? Reconciling that is challenging.

I think the organisations are getting better at engaging the private sector. That said, there are real tensions and real risks with working with the private sector that they have to manage day in, day out, reputational risk being one, as well as attribution and being able to demonstrate that working with the private sector can lead to pro-poor benefits. Those are some of the challenges and why we even continue to ask the question of how well they are doing at it.

Q27 Chair: I guess a few good examples will always help. We know, as a Committee, that the critics of development assistance out there will be very quick to say, “You have been taken for a ride by the private sector” or “You are somehow compromising”, but we all know that the real ending of poverty will come by private-sector expansion. The question really is a point that Jeremy Lefroy made: do you just deal with the infrastructure and let the private sector take care of itself, or is there an interaction? I am going to press Mr Tanburn: do you see any different examples amongst other donors? Do you think DFID is in the right place? Is it ahead or behind compared with others?

Jim Tanburn: I think DFID is highly respected by other donors and is often something of a role model in general. In terms of partnering with the private sector, which is only one way to work with the private sector—there are other formats—everyone is still learning what it takes and how to move from one-to-one deals to a more strategic partnership that is more informed and more long-term. I think all donor agencies are learning as they go.

Q28 Chair: In our earliest report, “Beyond Aid”, we mooted the idea of a development bank, given that a lot of other donors have one and DFID does not. I do not want to pursue that at great length, because we have done a separate inquiry, but do you feel that that is an area that would increase confidence and engagement, or do you think it is unnecessary or not essential to go down that route?

Jim Tanburn: Honestly, DFID’s advantage, despite the apparently relatively large budgets, is that it is quite small in relation to the markets that it is working in. Its advantage is much more around knowledge, learning, understanding and networks. There are multiple sources of finance out there now, but DFID has much more in the way of, I would say, expertise and input like that.

Q29 Fabian Hamilton: Gentlemen, when the Committee visited Sierra Leone, I think we were struck by the fact that we were constantly told that there was a lack of human capacity. At the same time, of course, there were high levels of graduate unemployment; I

believe there is currently 70% unemployment amongst graduates. I wonder whether you could answer this question: there has been a huge increase in access to education in so many countries, but why has this not led to an increase in jobs?

Lugman Ahmad: I touched upon it in an earlier question. I think there is definitely a disconnect between what the private sector and what the economy need, and what the institutions are producing, not just in basic education but in those skills that will help them transition into incomes and jobs.

Fabian Hamilton: So people are studying the wrong subjects at university.

Lugman Ahmad: I think they are coming into the market unprepared for what the market is looking for—unprepared and ill-equipped. Crudely, that is part of it, I would say.

Q30 Fabian Hamilton: Would you agree that that is why there is such high graduate unemployment? Are they all hanging around waiting for work in the public sector with the NGOs perhaps, or with DFID?

Lugman Ahmad: I also think that there is probably not a market that is ready to absorb 70% informal employment. In terms of people coming out of formal education, there is a limited formal job market that they can enter into. They must be competing quite intensively for the formal jobs and, therefore, they have to move into an informal environment and an informal economy, where they need to make a livelihood in informal trade, in some type of agriculture production or in small-scale manufacturing. Those skills are not being taught. How do you survive in an economy in which there is no formal job? How do you prepare someone to go out onto the street, to move from a rural area to an urban area, and to find a way in which they are going to eke out a living, either through hawking things on the streets or looking at trading? Yes, there is education to help improve the likelihood of them getting formal jobs, but we also need to recognise that there is still a big role that the informal sector plays. How does one prepare people to succeed in that context?

Q31 Fabian Hamilton: Who is going to tell these aspiring young people, who are able to go to university, that they are studying the wrong subjects, and that they should be studying this rather than that?

Jim Tanburn: Perhaps if I could add to that and then answer your question, I was in Vietnam looking at training there, and the Government was indeed doing some training. The private training establishments, however, were far more in demand, because, if you went through the course that they offered, you were guaranteed a job afterwards in a local business. The training institutes themselves were very tightly tied to the needs of local employers, to the extent that they could guarantee employment afterwards, and people really wanted that. That led me to wonder whether, in general, the educational and vocational-training establishment has been a little slow to move towards catering for the opportunities that are present in country.

Q32 Fabian Hamilton: Is the emphasis on improving skills to create jobs misguided?

Jim Tanburn: I think the devil is in the detail.

Q33 Fabian Hamilton: The economist Francis Teal, who has given evidence to us, notes that more important than higher education is investment that uses unskilled labour. Would you agree with that?

Jim Tanburn: In the short term, there is a lot of unskilled labour. Again, the Bangladesh garment industry has provided huge numbers of opportunities for young, relatively unskilled women to earn a living, and that has been fantastic, I think. Yes, I rather liked his evidence.

David Norman: It comes back to what we were discussing earlier in terms of the sequence of transition and thinking about the balance between, say, agriculture and services and manufacturing. Clearly, there is a very rapid transformation going on at different paces, in different, for example, African economies. That can sometimes not match with the current balance of skills in terms of people coming out of training and coming out of education. Ultimately, we are interested not just in job creation but the creation of good jobs. The creation of wealth and the creation of growing productivity that will go along with that growth in the middle class by 3 billion by 2030 will certainly entail structural changes towards the ability to employ many more graduates at those higher levels, but there is perhaps a mismatch at the moment.

Q34 Fabian Hamilton: There is, however, surely still a need for the creation of jobs for unskilled workers. Not all people will be able to go into further or higher education.

David Norman: Undoubtedly. We started with that number, just looking at SABMiller's operations: for every one job within our operations in sub-Saharan Africa, there are 50 in our value chain or widely supported by our operations within the economy, so many of those are informal or very small businesses, or farmers supplying us, or very small retailers buying from us. We are much closer to the kinds of jobs you are talking about.

Q35 Chair: Thank you very much. That was extremely interesting for our first session, I must say. I get an undertone of optimism, which I hope will prove to be well placed, because I think many of us look at sub-Saharan Africa and have very mixed feelings at times. You see good stories and then you see bad stories, and you never quite see the take-off that is promised. Let us hope that some of these interactions and some of these developments will be transformational. Thank you very much indeed for your evidence.

Examination of Witnesses

Witnesses: **Diana Noble**, CEO, CDC, and **Alex MacGillivray**, Director of Development Impact, CDC, gave evidence

Q36 Chair: Thank you both very much for coming in. I think it is of interest to us for the inquiry, obviously, but it is also good to reengage as a Committee with CDC in a formal way and maybe tease out some of the other things since we last spoke. Again, just formally for the record, could you just introduce yourselves?

Diana Noble: I am Diana Noble, Chief Executive of CDC.

Alex MacGillivray: I am Alex MacGillivray, Director of Development Impact. It sounds like a weird job title; in fact, it is a new post that CDC created in 2013. Everyone at CDC is responsible for development impact, but my team's job is to measure, monitor, evaluate and report on the impact.

Q37 Chair: That, in itself, is an interesting point, which we appreciate. As you know, we are talking about jobs and livelihoods. The previous discussion was about the extent to which jobs can be created and, when jobs cannot be created, the extent to which you can improve the income of people engaged in their almost subsistence-level livelihoods and raise them up. Nevertheless, if we can start by talking about jobs, where do you think the potential for job growth is in sub-Saharan Africa in particular, and why do you think it has not happened there in the way that it has in south-east Asia? Every time we go to a country, we talk about it: why are jobs not being created in food processing, why are jobs not being created in new industries, and why are jobs not being created in, say, the garment sector? What is stopping sub-Saharan Africa from following the example of south-east Asia, even in a different mix?

Diana Noble: Can I firstly say thank you for inviting us here today and also how delighted we are that the Select Committee has chosen this particular topic? It is such an important and worthy theme and, in our view too, is central to development and to lifting people out of poverty. As I stated in my evidence to the Committee when I was here last year, we decided, when we set a new strategic direction for CDC in 2012, to focus the impact that we wanted on jobs, so this is obviously enormously important to us.

The question about why job creation is difficult in Africa is obviously a complex question. I think historical reasons are largely responsible. If you look at Africa's dispersed leadership across 54 separate countries, and if you look at the mixed political and economic governance of those countries, particularly during the 1990s and 2000s, there is a legacy that we are trying to catch up on. If you read the literature, people point to a lack of power, a lack of infrastructure and a lack of skills across countries.

Q38 Chair: By "power", do you mean electrical power?

Diana Noble: Yes, exactly, and I think all of these elements have to come together. It is a big topic but I will keep that particular answer short.

Q39 Chair: Do you see plenty of opportunities in Africa?

Diana Noble: Yes, we do see investment opportunities, but let me be clear: it is hard work. Very little that comes to us is immediately investible the moment that we see it. There are long lead times to turn what, initially, tends to be uninvestible into investible. Largely, what we will complete this year and next year, we will have been working on for at least a year, so they are very long lead times. The way that we do it is slightly different across our three investment strategies, and it might be worth just bringing this a little bit to life for you, given that we now have funds, debt and equity. The size of those markets and CDC's position in them is different, so I will try to be clear about those.

For our funds strategy, between \$1 billion and \$2 billion is raised in equity funds across Africa each year in 10 to 15 funds, give or take. Despite the promise of Africa that everyone knows about, this is largely still a DFI-supported market. It really would not

exist without the DFIs. Commercial money is still looking at Africa and saying, ‘We will wait’ when it comes to funds. Only the very largest institutional funds get raised without DFI money, which is encouraging, because it does mean that at least a piece of the market is beginning to move beyond the DFIs, where we were instrumental in getting it started.

We see pretty much every fund that is raised every year, because of our reputation, often when they are just a concept, where it is just a couple of people with an idea of a strategy. We will typically invest in seven out of the 10 to 15 and will commit about \$250 million a year. A good proportion of those—three or four out of the seven—will be first-time teams. What is exciting about Africa at the moment is that we are now beginning to see economic activity and demand for equity across regions that, typically, have had very little activity. For example, we are working at the moment on an SME fund for DRC. This is really frontier investing and really beginning to push the boundaries. However, the story that the team is telling us is genuinely of demand for equity, and debt mixed with equity, in that region amongst the SMEs, which is really encouraging.

Our debt strategy is rather different. Demand for debt from DFIs across Africa is incredibly high and has been growing in the last few years. This is partly driven by economic activity, as well as by the fact that local banks tend to lend in very short tenures and at really high interest rates. Also, the international commercial banks have been pulling back from the region because of Basel III and regulatory requirements. The debt market for DFIs is very large and, in 2013, the debt provided by all the European DFIs, plus IFC and the African Development Bank, excluding South Africa, totalled \$4.5 billion, so it is a big and very developmental market. CDC participates in loans led by other institutions. We decided to enter that market behind other leaders, so we do not originate our own transactions, but we committed about \$120 million in that market in 2014. We do, however, select the transactions that meet the best of our financial and developmental objectives.

Finally, our equity mission is the most challenging of all three. When we started, I think people thought that, because we had such a large fund business, we would do a lot of co-investment with our funds. In reality, we do very little of that. It is a very small market. Our fund managers, historically, have not got capital into the really hardest regions that we wanted, so it is beholden upon ourselves to develop our own equity strategies. We really developed two strategies: one is to selectively back the most promising medium and larger-sized businesses, but without letting the number of those outstrip our capability to manage them, because, in equity, this is much more hands-on than debt; and also to develop relationships with the best of the largest businesses in our priority sectors, wherever they are based, which have an interest in partnering with us to bring businesses to sub-Saharan Africa. Our aim there is to develop a relatively small number of close relationships, where we can successfully build high-quality and effective businesses in difficult geographies over time.

We think that that is a sensible way to do what we are doing, and we can illustrate each of funds, equity and debt with examples, if that is of interest, of how it is working in practice.

Q40 Chair: Could you do that in a note?

Diana Noble: Yes.

Q41 Chair: That would be very helpful, thank you. You have your critics, but then who does not? Christian Aid has picked up and said that you had investments in 150 funds with 88 different fund managers and 19 direct investments. This is Christian Aid speaking. They say, “This makes it impossible for the company to understand its contribution to jobs and livelihoods in developing countries. It says it knows about employment numbers in 81% of those companies—but not whether the jobs are direct, via subcontractors or entirely casual. Nor does CDC appear to know about wages and working conditions at the firms in which it is an indirect investor.” That is your role, I guess, but given that, and the fact that you have set out this aim to achieve development impact focused on job creation, how do you do that and how do you respond to that criticism, in terms of how you address those outcomes?

Alex MacGillivray: I will jump in for the first bit of that at least. Thanks to the Committee, in 2008 we started gathering information on direct job numbers in all of the investments, which, at that time, were purely in funds business. We wrote those into legal agreements with all the fund managers that they would supply us with employment numbers from investing businesses across the whole universe, including China but particularly in Africa and south Asia. By now, I am not sure if the 81% figure is correct but it is certainly over—I think my figure is 90% complete data on businesses that we have invested in since 2008. We still have some legacies where we did not have the legal agreements in place in time to do that.

You get a pretty good idea, with the 90% coverage, of your sample, so I am not sure that we would agree that we do not know what is going on in the companies; hence we were able, last year, to report on the direct job creation in the portfolio of 68,000 net new jobs created across all of our geographies. We have the information broken down by geography as well. In terms of wages, we started gathering that information more recently. We do not have as full a picture. In terms of job quality and issues like gender, we also started more recently, in 2013, asking about the gender breakdown of the jobs. Again, we do not have a fuller picture but we are gradually getting a fuller picture as old investments leave the portfolio and new ones come in that are bound by these legal agreements.

Q42 Chair: Your response to that, then, is that, since 2008, you have been monitoring both the overall statistics and, now, more qualitative information about—

Alex MacGillivray: Exactly, yes.

Diana Noble: The reason why we created this role was precisely because we do want to understand what is happening and we do want to understand not just how many people are being employed in our companies but what is happening to job creation, to job losses and to gender and other areas. This will take time but to say that we are not interested or that we do not care is definitely not the case. We will need some time to build up the full picture there.

Q43 Chair: Another thing is, when you are looking ahead, how do you decide—or do you decide—which sectors to prioritise? Do you think about whether or not it creates jobs as opposed to a good return? Indeed, do you have a proactive role in developing new sectors? We have had a discussion, for example, as to why the garment industry is so underdeveloped, and there may be other sectors. Is this something where you stand back and

say, “These are sectors we should be looking to invest in. These are sectors which Africa should be getting involved in and we might be able to help”, or are you responding to people coming to you and saying, “We have these great ideas. We would like your support”?

Diana Noble: We are proactive, and one of the big changes we made following the new strategy in 2012 was to say that we really do care about the sectors that we support, because we know that some sectors inherently have a propensity to create more jobs than others. I believe the Members of the Select Committee received a copy of the development impact grid that we use when we make investments, and we use that to channel capital behind our developmental aims, which are to support the growth of businesses for the creation of jobs across Africa and South Asia, especially in the hardest places. As you will have seen on the grid, the X axis shows how challenging the geography is. Each country or state of India is spread across that axis, but it is the Y axis that I would like to focus on here with this topic.

We asked the chief economist at DFID, Stefan Dercon, the academic, Ethan Kapstein, and the leading impact-measurement consultant, René Kim from Steward Redqueen, to help us develop a methodology for identifying which sectors would have the highest potential for creating employment, and then the medium and the lowest. They did it and came back, and they used three criteria for doing that. They looked at the potential to create employment directly, as indicated by the employment-to-capital ratio—i.e. how much capital do you put in typically to get jobs out; the potential to create employment indirectly through backward linkages, effectively through the supply chain, as indicated by the local procurement-to-capital ratio; and the potential for indirect forward job creation through investment into a central infrastructure and areas like financial services, where there are significant business constraints at the moment.

They put those methodologies together and they came up with priority sectors, so we now have seven priorities: agribusiness, construction, manufacturing, financial institutions, infrastructure, health and education. As an example, although mineral resources have driven a lot of growth in sub-Saharan Africa over the last decade, it is a low-priority sector because we know it has a small workforce and little indirect employment relative to capital investment. That is the methodology that we use in theory.

In terms of what we also do in thinking about new sectors or gaps in Africa when we apply this methodology, our mandate is to work with the market and respond to wherever there is a need and a financing gap. But we are doing incredibly interesting work at the moment in identifying enormous gaps, largely in existing sectors rather than establishing new sectors. Whenever we take one of our priority sectors—and what we tend to do first is we draw a market map and say, “What exists, what is the need, who can satisfy it and where are the gaps?”—every single market map for Africa says that there are enormous gaps everywhere. Africa does not have enough of everything, whether that is electricity, transport infrastructure, schools, hospitals or cement plants. You can draw a very long list.

For example, in power, it is well-established that power generation falls disastrously short of the need. Poor transport infrastructure is a perpetual problem. Access to healthcare, as the current Ebola crisis is tragically highlighting, is far too low. When we identify the need, we then say to ourselves, “Who is the best partner who we could find, who would be aligned to us in trying to establish operations in Africa?” These partners may already be in Africa, although that is quite rare; they may be in South Africa; or they may be somewhere else in the world. What our teams do, without waiting for deals to come to us, is to

proactively go out, knock on doors and say, “Are you interested in partnering with us to establish high-quality businesses in sub-Saharan Africa?”

We are really encouraged by this strategy already. We have already partnered with a large South African business called Grindrod, which is one of the few African businesses that is developing critical infrastructure where it is most needed. We partnered with them because we want to work with them to bring that infrastructure to broader places across Africa, not just South Africa. We are well advanced in discussions to develop a pan-African education business with an international group. We have a number of promising conversations with healthcare groups in India, which have developed really innovative low-cost models that could be taken to Africa, because low cost is what you really need in Africa. If all of these happen, they will create new businesses and new models that will employ lots of people, as well as fulfilling the essential needs that are so lacking today.

In a way, this is a 21st century version of the kind of pioneering investment that CDC used to do in the old days. We have tried to learn from our history and adapt it to what is needed in today’s markets. We think it is a more practical and lower-risk way of establishing and growing high-quality new sectors in countries that really need them than just backing a virgin new start-up in a country where it is just us and them.

Chair: That is really interesting. In terms of what we hoped CDC would be doing, I think it is definitely down the right avenue.

Q44 Jeremy Lefroy: Thanks very much, and good morning. We have heard quite a lot on the changes that have happened to CDC since 2010-11, and I do not particularly want to go into more detail on that, but we would be interested to know how the geographical range of CDC’s investments and the type of investments has changed as a result of the difference in policy. If you could also talk about obstacles, you have mentioned some already, but are there others that you would like to bring to our attention, which have made it difficult for you to achieve that?

Diana Noble: You pointed to the portfolio shift between both geographies and ways of investing, and those were two key aims of what we were trying to do in 2012 when we put a strategy together that is up on the website for anyone to read and that said that, when we started the strategy in 2011, the portfolio was 51% funds in regions where we wanted to continue—Africa and south Asia—and 45% of the portfolio was in the geographies that we were not going to invest in anymore—China, Latin America and south-east Asia. A very tiny amount—4%—was in other investments, like microfinance. We put together a set of projections that highlighted a dramatic portfolio shift and, I have to say, when I looked at it, I thought, “Is this even doable?” We said that, by 2016, the amount of the portfolio in the legacy geographies like China would have fallen to 17% from 43%, and that the debt-and-equity direct part of the portfolio would grow from virtually nothing to 43%, whilst funds in our remaining regions would stay at 40%.

We have just done a set of projections for the next couple of years, which are not fully embedded down and have not gone through the board, and there is still a lot to do to deliver them. However, if we do, we will be well ahead of those numbers. We would be at 56% for direct investing by 2016 if we deliver what we need to do in the next couple of years, and our legacy geography will have fallen to 16% compared to 17%. It is a huge shift in the organisation and I think we are proud of the progress that we are making.

If I look at the barriers and the harder things, I think the first thing to point to is how long this all takes. It is still incredibly early days. I can quote these nice numbers to you but it is incredibly early days in demonstrating what we feel success would be from the new strategy, and that is not just making investments; it is showing that the portfolio is delivering, over the long term, the financial returns and development impact. The sort of thing we can show today in terms of progress is that the grid is generally driving capital to the harder geographies and the more job-creating sectors, exactly as it was designed to do. We can show that our new teams are investing at a much higher rate than before, and that the balance of products between direct and indirect is where we want it to be. In terms of demonstrating our full objectives, however, that is going to take many more years.

I think the second comment I want to make is about the challenge of building an organisation to do this work. Working at CDC is, I think, the hardest investment role that I know of. We are asking our teams to go out to find investments—and create investments in most cases; it is not just responding to what comes to us—where the private sector is weakest, where there is most corruption, where there are very few experienced managers, and where accounting and legal systems are patchy; and to, over many years, with many bumps, support those businesses to be commercially sustainable and, ultimately, saleable. It takes an exceptional level of skill to do this and to do it well.

As the Committee knows, we responded to the recommendations of the Committee in dramatically reducing the compensation at CDC at the end of 2011. We are also saying to our potential recruits, “Come to CDC and do this incredibly hard thing, but we will pay you considerably less than you could earn elsewhere.” Inevitably, therefore, it is a small pool that we fish in. We also set ourselves a high bar to build the organisation very quickly. I think we are doing well so far. There were 50 people when I first joined CDC, of whom 30 are still with us. We now have an organisation of 130 people, so that is hiring 100 people in the last two and a half years.

However, retention is going to be increasingly important. We need a stable and experienced organisation to execute our mission. In the first year, we lost 13 people, which was to be expected, in a way, as we reoriented ourselves. Last year, we lost seven; this year so far, four. These are low numbers but because so many people are new, you would not expect it to be high. Over the next few years, only time will tell whether we have created what we want, which is an organisation that will attract great people but hold on to them for the long term.

Q45 Jeremy Lefroy: It is very encouraging to hear that and it really goes to the core of CDC’s mission, which is to do the kind of investments that others would not have done, and that was really going to be my next question. Is that going to mean, inevitably, a much lower return on investment, or how do you balance the expectations that, in previous years, CDC was making quite high returns on investments because they were seen to be, to some extent, potentially low-hanging fruit, against the need to do what is additional, which is, after all, your mission? Your mission is not to do what everybody else is doing but to do the things that other people are not doing and, in so doing, create jobs in places where other people are not.

Diana Noble: It is a great question, and let me talk about additionality first, because this is an area that we put a lot of thought into this year in particular. We absolutely recognise that, as we are a public-sector, development-finance institution but we are investing in the private sector, we always need to address the question of what our role is relative to the

purely commercial investing organisations. We have to answer the question of why CDC is needed, particularly in a world where private capital flows are going up all the time and have exceeded official flows, even in Africa and south Asia.

The CDC board has put a lot of thought into how to embed additionality into our investment strategies. We engaged an ex-IFC consultant to review all the literature in order to establish how comparable institutions think about additionality and make recommendations to us. The recommendations were that we should always be clear about additionality, both at the strategic level as well as every single investment, but we should break that down very clearly into its constituent two parts: first, financial additionality, which captures the concept of providing capital where this is not offered at all by the private sector, or not in sufficient quantity or not on the same terms; and also focusing on value additionality, which recognises that DFIs like CDC often provide more than money, which can be additional to the offering that the market is providing. We need to be very clear, however, about both of those things in every case. Those recommendations are being worked into guidelines at the moment, so that the board itself can be absolutely clear that CDC is fulfilling its role as a public-sector DFI.

Then, just responding to your question about how we make the whole equation work, in terms of development impact we have the grid that is driving us to the hardest places and developmental sectors; we have additionality, which says we have to show that our role is important—we cannot just follow commercial capital; and we have to deliver a financial return. The answer, I think, is only in the quality of the team and the organisation. We have to have skilled people who understand risk, who can run a high-quality process, and who can select the right partners to work with. We need very good investment committees. We have hard conversations there. Every proposal goes through three stages—screening, interim and final—and we will talk a lot about the judgments that we are making in every case: will this strategy deliver all three? As I said, we will not know for some years still.

One of the challenges as well is that the markets we invest in gyrate, so you might say, over a period of three years, the returns are quite low but we are marking to market. It is really only after you see a 10-year picture, and you look at that compared to the markets, that you can say, “Yes, we really delivered”. All I can say so far is I am really pleased with the quality of the investments that we have been making. We do portfolio reviews every quarter, particularly for the equity portfolio, because that is so dynamic. I do not feel that we are making big mistakes at the moment but, as I say to my board, give us time because we definitely will. It is, however, in our mandate: we will make mistakes.

Q46 Fabian Hamilton: In this Select Committee’s report on CDC in 2011, one of the recommendations we made was, “CDC and DFID country offices should work in closer collaboration to decide on which sectors and countries to invest in. There should also be closer collaboration between CDC and DFID’s Private Sector Department with clear accountability between the two.” I wondered how you would evaluate DFID’s engagement with the private sector and what it could do better.

Diana Noble: I can certainly describe how we are working together, if I can answer it that way. It is fair to say that, when the Select Committee looked at this topic, the correct response was that CDC and DFID were not engaging enough and should definitely do more. Since 2012, however, our two organisations have inevitably been coming closer together. We have become more developmental: we think about it much more, we talk about it and we challenge ourselves about it. DFID itself, as you know, is putting a far

greater emphasis on the private sector as an important mechanism for alleviating poverty. Of course, our two organisations are coming closer together.

We have had to think about how to work that in practice. Of course, we talk daily in London at multiple levels, but equally important is the relationship between CDC and the DFID country offices. In late 2012, we agreed with DFID to put together what we call a liaison programme, and the express objective of that is to enhance the communication between the investment teams—not me but the people who are making the investments—and the private-sector advisers of DFID, which, as you know, has been a big growth area within DFID across the world. Because we were starting from a very low base of, frankly, trust and knowledge about each other's organisations, we did not set any targets for this programme at all but we simply impressed on both teams that both organisations would be strengthened if we got to know each other and if we understood each other's priorities and then built on that, to see if we could establish some joint priorities together.

I am really happy with progress on that, although it is, again, early days. Typically, when CDC investment teams go to countries, they call on the local DFID team. We often discuss our potential investments for the DFID local opinion. This is particularly true of a strategy that we have, which is called our Frontier Investments strategy, which is a small team which is currently exploring opportunities in Nepal and north Nigeria. These are particularly challenging places, and it would be really easy for us to make missed steps or back completely the wrong teams, with a team in London. DFID's local knowledge and network of relationships is absolutely invaluable to us, and we tell them all the time. It also happens in other places; for example, we made an investment in a very innovative education business in Kenya called Bridge International Academies, and DFID has provided very helpful views on education regulation in Kenya that has helped us with that. We invested in an agribusiness in DRC, and the DFID office provided very helpful advice on agricultural law, which is, I can tell you, a very arcane and difficult topic in DRC.

It is not, however, just a one-way flow of value. We certainly appreciate what DFID brings to us, but, as DFID itself has been exploring and designing its own programmes for returnable capital and making manager selection, for example, in India, the CDC team has provided a lot of input and guidance to that on how to set that programme up, how to structure it, and how to provide oversight. There is one part of CDC where the collaboration is particularly close, though, and that is the DFID Impact Fund, which I think you all know about, where we manage £75 million of DFID's capital for it, and invest it in impact funds that themselves invest in businesses providing jobs, goods and services to the very poorest people in Africa and south Asia. It is not a huge market in capital terms but it is a very vibrant one, and this collaboration has married CDC's expertise in funds with DFID's knowledge and understanding of direct poverty alleviation, I would say to the benefit of both organisations.

We are now looking to build on this potentially by piloting a small pool of capital to deploy along our mainstream direct equity business, which would allow us to encourage management teams we back with equity to undertake more developmental but risky strategies that they would not otherwise do. We are going to pilot that and see how that goes too.

Q47 Fabian Hamilton: In your opening comments, Mr MacGillivray, you mentioned that you were involved in the impact of the work of CDC with development

partners. Have you worked with the Independent Commission for Aid Impact or talked to them at all?

Alex MacGillivray: We have not yet, to be honest, but we do read the reports. In fact, the thinking we are doing in terms of developing our evaluation framework is well informed by the process that they go through and the rigour of that process. We are looking forward to meeting with them, but we have not engaged so far.

Q48 Fabian Hamilton: It just seemed to me that there may be some crossover there and you may be able to help each other.

Alex MacGillivray: Yes, absolutely, and there are a number of other organisations internationally around the IFC family of evaluation bodies that we are also in touch with.

Q49 Chair: Just following up from that, are you able to give us any details on the meetings that you have had outside London with the various countries, especially in Africa? In particular, given that we are going there, we would be interested to know what activities you have had in Tanzania. Just to give us a feel of when and where these meetings happen and how often, but again something specific relating to Tanzania in advance of our visit.

Alex MacGillivray: Maybe I could just jump in on Tanzania because I was there last week visiting one of our investments, Export Trading Group. I was quite surprised to find out that the only people who had not visited the new cargo-handling facility there was the Secretary of State on her last visit, so we were able to talk about that from the company's side.

Q50 Chair: She had or had not been?

Alex MacGillivray: She had not, unfortunately, but I gather you are going to have a chance to visit in early December, so that is a good example. I can tell you that it is quite impressive, so, if you do have time, it is well worth a trip there.

Q51 Chair: It would just help us to understand. The criticism of CDC in its previous incarnation was that it was basically a fund of funds sitting here and not really connecting. What you are telling us is that it is a much more engaged, hands-on model.

Diana Noble: If you came to our offices on any day, you would see 50% of the team are out.

Q52 Chair: If you could give us more detail, that would be good.

Diana Noble: Yes, we do log engagements with DFID and we have numbers, which I have not brought with me but we can—

Q53 Chair: If you could, please. We have also been informed by DFID that, in 2016, you will be creating a new strategy. I think you are in the process of implementing a new strategy. What does that mean? Is that your decision or DFID's decision?

Diana Noble: The strategy that we put together in 2012 for 2012-16 was an absolutely collaborative process. We debated it, we tested it, we involved, as I said, Stefan Dercon in the design of the grid, and we came and presented to the DFID board. It was only after we went through that quite rigorous process that we then encapsulated it in the presentation that is up on the website, plus the investment policy, and we would expect it to be similar next time round.

I think, though, if I talk about 2016—and this is a nice opportunity to do so—CDC is, in essence, an extremely long-term and patient investor. We commit and invest capital, and do not expect, as I said, the full results—whether developmental or financial—for seven, 10 or even 15 years per investment. The view that we put together in 2012 was a five-year view, and it was very meaningful because it talked about how much change we would implement in terms of how we would invest, how we would be more developmental and how we would build an organisation that could execute the strategy that both we and DFID wanted—all the things that we have touched on today. We will not, however, see the full results until we have been through a full investing cycle, which I know is frustrating for all of us but it is also reality.

I envisage a process at the end of 2016 that should be, of course, a proper and full review of what we are doing, and what is going well and not going well, and I do anticipate tweaks. Of course we should do that, but I do not feel it would be sensible to do anything too fundamental, because I think that what the organisation really needs is continuity. CDC has had two fundamental changes of strategy in 10 years: 2004, when Actis was spun out; and then 2012. It needs consistency in the way it engages with the market and its clients, the way we describe ourselves in the market, the way we make long-term investments and the way that we want to build up accumulated knowledge and wisdom, particularly on the jobs side, from our team over time.

Chair: That is helpful and encouraging. I was thinking, “Surely, not another great change of direction”, so that is what I would hope to hear. Can I thank you very much? The offers of additional written information are much appreciated and will help inform us. Also, if you reflect on anything afterwards that you think we ought to know about, whether it relates specifically to Tanzania or to the more general employment and job-creation aspect, we would be happy to hear it but, in the meantime, thank you very much indeed for coming in.

Diana Noble: A pleasure.

Alex MacGillivray: Thank you very much.