House of Commons

International Development Committee

Oral evidence: DFID's Economic Development Strategy, HC 941

Tuesday 12 June 2018

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Watch the meeting

Members present: Stephen Twigg (Chair); Richard Burden; Mr Nigel Evans; Chris Law; Mr Ivan Lewis; Lloyd Russell-Moyle; Paul Scully

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Witnesses

I: Graham Wrigley, Chairman, CDC Group PLC; and Nick O'Donohoe, Chief Executive Officer, CDC Group PLC.

II: Lord Bates, Minister of State for International Development; Rachel Turner, Director of Economic Development, Department for International Development; and Melinda Bohannon, Head of Growth and Resilience Department, Department for International Development.

Examination of witnesses

Witnesses: Graham Wrigley and Nick O'Donohoe.

Q1 **Chair:** Good morning, everyone. This oral evidence session is part of our short inquiry on DFID's economic development strategy. I welcome Graham and Nick from CDC. They are our first panel. We are going to have about half an hour with you and then we have the Minister with officials for the second panel. We have six questions that we are going to explore with you over the next half an hour.

Before we come more specifically to some of the questions around CDC'S own role, let me ask you, as CDC, what you see as the unique selling point of DFID's economic development strategy and how the objectives of funding disbursed under such a strategy differ, if at all, from other forms of development funding.

Graham Wrigley: The uniqueness of DFID stems in part from DFID's general developmental reputation, which is extremely high across the world. DFID has had a much longer heritage in economic development than people maybe understand. I have come to know Clare Short in recent months and she speaks very eloquently about how right from the very beginning, as the first Secretary of State for International Development, economic development was a key part.

This new strategy is very challenging—we will probably talk about that later on today—and innovative. DFID has always been, if you look at its history, at the cutting edge of economic development: what it did with PIDG, the creation of GuarantCo and the way it has pushed CDC. M-Pesa, which has had a huge impact on mobile money, was a DFID initiative.

I would also talk about scale. With a 0.7% commitment, what DFID does in all development matters to the world, and I would say the same thing with economic development. With a spend of 15% to 20%, the impact is important and significant. Those would be the main USPs.

Q2 **Chair:** Is there a risk, specifically in economic development, of going for the low-hanging fruit and therefore not having the same rigorous focus on poverty reduction and addressing the needs of the most marginalised and low-income countries, compared to other areas of DFID's strategy?

Graham Wrigley: It is always a challenge in any walk of life, including when you are doing not-for-profit work, not to go for low-hanging fruit, because you have to make the trade-off between scale and purity of impact with focus on the few. The strategy is very explicit. It says, "leave no one behind" and it is about getting the right balance. We face that, and maybe Nick will talk about it later on today. How do you do a spectrum of work?

Q3 **Paul Scully:** How exactly does CDC's contribution fit into the strategy?

Graham Wrigley: Our purpose is development, so generically we are incredibly aligned. If you think about the context and how we are complementary, DFID has a general development strategy and economic development is one subset of that overall strategy. CDC, with its provision of patient capital, is one subset of the economic development strategy. It is very complementary. The best example is M-KOPA. M-KOPA is a solar home system—a company in Kenya providing off-grid renewable energy for 500 poor families. DFID has been working in Kenya on capacity building and economic development capability for decades. It provided the original grant financing for M-KOPA. CDC has followed it up with an equity investment and then more recently with a local-currency loan. That is one example.

Strategically, through our five-year strategy, DFID set down a series of objectives and then worked with us, the board and the management team to agree a strategy to fit in with its overarching economic goals. Our strategy is all about driving patient capital to the poorest parts of the world; having an impact and assessing that at multiple levels; bringing in—this is one of the innovations that Nick might talk about later on—a lot of innovation on cross-cutting themes that are important for DFID generically, such as gender, job quality and climate change; and then having a clear feedback loop, with accountability and performance targets, to the shareholder.

Q4 **Paul Scully:** How central are you to the overall strategy? You talk about the subset. Is the subset over here or is it right at the heart of the economic strategy for DFID?

Graham Wrigley: We are one part of it. If you look at the spend in the last two years, we have been about 20% of the total. In terms of how central DFID feels we are, you should ask DFID that.

Q5 **Paul Scully:** Conversely, the question I was going to ask afterwards is: how central is that strategy to what you do?

Graham Wrigley: I see what you mean. They are very complementary. If you read the objectives of the economic development strategy—achieving the SDGs—that is what we are trying to do. They are very similar.

Q6 **Paul Scully:** What mechanisms exist to ensure that there is co-ordination between DFID's spending on the enabling environment, the policy support and your investment in ventures?

Graham Wrigley: The main thing is through the strategy, where we have explicitly agreed a set of clear goals that flow through all aspects of CDC—the board, the investment committee and the management team—and we have a whole series of relationships with DFID. I describe DFID as a shareholder with clear goals. Maybe Nick should talk about how we have a relationship with them as a partner, to answer some of your questions.

Nick O'Donohoe: We are in a constant dialogue with DFID. We are in a constant dialogue at a country level, with not just DFID but the other parts of the UK Government represented on the ground. There is a constant dialogue going on at a country level. One of the reasons why we have begun to expand our on-the-ground presence in the last 12 months is to make sure that that dialogue really is working seamlessly. There is a dialogue at the sector level. DFID has a series of sector teams, and we have a series of sector teams. They are in dialogue about the sector strategy from a systemic, holistic perspective, which is important. As Graham said, we are complementary, provided that the provision of capital is complementary to the provision of grants. Making sure that those two are aligned and pushing in the same direction is important, and we do that through constant dialogue.

Q7 **Paul Scully:** Does the demand to deliver at scale mean that CDC has to work with country Governments and co-investors—such as other development finance institutions, bilateral and multilateral—to align their investments with wider economic development strategies?

Nick O'Donohoe: Our capital goes to the private sector, but that does not mean we do not work with Governments on the ground, because many of the industries in which we invest are regulated industries. You need that understanding of local government strategy and policy.

In terms of working with other partners, whether they be other DFIs or other organisations supported by DFID, much of what we do is in partnership with organisations like the International Finance Corporation—the IFC—with PIDG in the infrastructure field and with AgDevCo in the agriculture field. These are different organisations that play slightly different roles in the ecosystem. They have different access to different amounts of money, grants and capital, but we have close relationships with all of them and we have partnered, in my time at CDC, with all of them in specific transactions.

Paul Scully: It must be quite challenging to co-ordinate those different relationships.

Nick O'Donohoe: My observation, a year into the job, is that it works pretty well, actually. The strategies for the different organisations that DFID supports are reasonably clear and well articulated. I have—as does Graham—good personal relationships with the people who run those organisations. From my perspective, co-ordination can always be challenging, but it works pretty well.

Q8 **Lloyd Russell-Moyle:** You talked about the integration at the country level. One of the things that I have found when visiting country offices of DFID is that there is not always knowledge of what CDC is doing in a country. Would you agree that that has been the case in the past, and are you trying to rectify that—to make sure that everyone in those DFID offices really understands what you are doing?

Nick O'Donohoe: That is absolutely fair. When I joined CDC, I spent quite a bit of time travelling around the countries we were investing in, and it was clear that we had not had the close relationships that we needed to have in country with DFID or broadly across Government. We had begun to fix that, frankly, before I came here. Personally, I think there is no substitute for having people on the ground. There is no substitute for having somebody in Nairobi, Lagos or Kinshasa, who can have that daily or weekly contact, and who has the same networks and relationships. A big part of the change and evolution in CDC over the last 12 months has been to roll out those local networks.

Q9 **Lloyd Russell-Moyle:** Do you co-locate in DFID offices?

Nick O'Donohoe: We have not historically co-located in DFID offices. There are some practical problems to co-location. It is very difficult to get into DFID offices from a security perspective—quite rightly. That does not make our job any easier. There are some restrictions on information flow, in both directions. Up to now, we have not chosen to co-locate.

Q10 **Chris Law:** Recently, CDC has been rebalancing its portfolio from middle-income countries to low-income countries and fragile states, obviously with a much higher risk profile. What changes to your business model have you had to make to accommodate this move, and can you tell us what types of evidence you have gathered that your amended business model works effectively in these more challenging contexts?

Nick O'Donohoe: The shift into fragile, more challenging states began in 2012. If you look at CDC today, more than 50% of our new investment goes into fragile and conflict states, under DFID's definition. To put that into perspective, it is more than twice as the percentage in the other major development finance institutions. Principally, we have used the strategy that was developed in 2012, long before I came. We should feel proud of the fact that of all the development finance institutions, CDC is the one that is evidentially the most focused on fragile and conflict states. That is one of the things that we are measured on in terms of where our money is invested.

Q11 **Chris Law:** Just to follow on from that, I want to ask: is your portfolio a bit urban and central so far, or do you have evidence that it benefits the poorest people in remote areas? What steps do you take to listen to poor and marginalised communities so that they are part of the process for where these smaller investments go?

Nick O'Donohoe: Before we make any investments, we go through an extensive due diligence process, which includes working with the companies, but also visiting the company sites and engagement with the workforce. For every investment we make, we develop an environmental, social and governance plan. We look at gender, job quality and climate issues. It is a very extensive due diligence process before we invest.

Once we invest, we are an activist investor. We put money in and then we see it as our responsibility to work with the companies, to ensure that the workforce is being treated appropriately and they are doing everything they can from a climate perspective.

Q12 **Chris Law:** Are these conversations happening not just with the companies, but with the workforce itself: individuals who are involved right at the very bottom level?

Nick O'Donohoe: CDC as an investor typically works through the company management. On a regular basis, we also visit the companies that we invest in. When I am travelling in Kenya, the DRC or Nigeria, when I go and visit the companies, I do not just sit in the managers' offices. I go out to talk to and get a sense for the workforce.

Q13 **Chris Law:** One area you touched on was the impact on climate. I am just looking back here at some information that was given to me. Under the country development diagnostics, there are five thematic pillars, but environmental sustainability and climate change is not one of them. Given that the UK Government are signed up to the Paris agreement, and given that it is part of point 2.3 in the departmental plan published in 2018, the obvious question would be: why? What is being done to mainstream climate change and a transition to a low-carbon economy in the investments that have been made?

Nick O'Donohoe: One of the changes in the evolution of the new strategy is that there are three specific areas we look on as cross-cutting themes across all our investments, and climate is one of them. The others are gender and job quality. Our role in climate comes in a couple of different ways. First of all, we are an investor in renewable energy, and we invested $600 million or so in renewable energy over the last couple of years. We have invested in renewable platforms in India. We have invested in solar platforms in Egypt. It is very much a theme of what we are investing in.

Q14 **Chris Law:** Why is it not one of your thematic pillars, then? It is a fairly obvious thing to do.

Nick O'Donohoe: It is a fair question.

Graham Wrigley: Infrastructure is one of our key sectors and, as Nick just said, one of our cross-cutting new initiatives in the new strategy is to explicitly build climate change in.

Q15 **Chris Law:** Will you potentially revisit that, then, to make sure that it is there?

Nick O'Donohoe: I think it is. When you look at our infrastructure pillar, the emphasis is absolutely on doing renewable energy.

Graham Wrigley: Across the board, if you look at Globeleq, we have one the biggest international, independent power companies in Africa. M-KOPA, the company I talked to you about, is part of one of our new, innovative strategies. We have invested in eight of the 10 solar home systems. I do not know if either of you has visited one. If you ever go to east Africa, please go and see one. It is a small kit, working in a rural community, that completely negates the need for kerosene. Having kerosene in a hut in Africa is equivalent to smoking two packets of cigarettes per day. This is working on a sustainable basis, so this is precisely the sort of thing that we are driving and that the new strategy is driving us towards.

Q16 **Chris Law:** On a broader point, what failures has CDC experienced and what lessons have been learned?

Graham Wrigley: Maybe I should take that. First of all, we have definitely made mistakes. We make mistakes at an individual investment level. I will not duck your question by saying that I will not talk about individual investments, because part of our mandate is to do that. Part of our job is to take risks the private sector will not do, and therefore we do make errors. Many of you have visited Virunga. There you will see precisely the sort of thing you are talking about, Mr Law, to do with off-grid renewables. Financially, that is extremely challenging but we feel that it is not a mistake, even though you could not go there now because people have been killed and it is closed to tourism.

As an organisation, over the last five years—I can only talk about the time I have been involved—strategically we have made two major errors. We have been very busy and we have had to prioritise trying to build out the organisation. We were too slow to communicate across all of Parliament, civil society and UK business. We were too busy making things happen. We paid the price for that in the CDC Act, and in the debate we had. We worked very hard to involve as many people as possible, to try to learn and take everything on board, and I think from the feedback we have built that into our new strategy.

As for the second lesson we have learnt, the development impact grid has been fantastic and is profoundly important because it has allowed us, following on from the recommendation that this Committee made, to divert capital to the poorest countries in the world, and it remains a hugely important strategic guide for us. But there is a level of impact assessment, and one piece of feedback from the CDC Act process was that we can move beyond that. We have started to do that, and Nick may talk about it later on, but with the benefit of hindsight we should have started that work a year earlier. Those are the lessons that I have learned.

Nick O'Donohoe: Coming in as a new chief executive, you worry that, when you actually get there and get behind the desk, you will find a lot of stuff that you wish they had never done. I must say that has not been the case. As Graham said, the job of CDC is to take risk. When you take risk, it does not always go the way you would like, either from a financial or development perspective. But the cases of that are very few and far between. The team that preceded me did a fantastic job in putting together a portfolio, working with the right people and doing the right type of developmental transactions.

Q17 **Chris Law:** Can you tell me a little more about what you are doing to support a larger number of smaller investments? What progress is the Impact Accelerator programme making? Specifically, what efforts have been made to increase investment in Malawi, which is precisely the sort of small and extremely poor country that was traditionally lost in the bad old days?

Nick O'Donohoe: I am glad you asked about Malawi. It was one of the first countries that I visited as chief executive. It is one of the countries that we feel best about, for a number of reasons. First of all, the new investment strategy has allowed us to make investments in Malawi, which is a difficult and challenging country. In the last two years, we have invested about $50 million in Malawi in a range of five or six different projects, four of them in the agriculture area. It is a really good example of how executing the new strategy and taking the extra spectrum that we are given to take more risk and be more developmental has allowed us to do a lot more in places like Malawi. It is one of the places we are proudest of, in terms of the progress that we have made over the last couple of years.

Q18 **Richard Burden:** As part of your move away from what the Chair described at the start as an over-reliance on picking low-hanging fruit, you have expanded your investment fund and, as you say, you have increased your appetite for risk. My first question is: how confident are you that you can still deliver on providing value and a return to the taxpayer, while at the same time delivering poverty reduction targets?

Graham Wrigley: That is a great question and one we discussed in the Public Accounts Committee. In the way I think about it, the challenge for CDC is balancing our purpose, which is development impact, with our responsibility to invest sustainably, which also feeds into development impact through investing in growth companies and then allowing us to recycle. We put on record that the new strategy we have been moving towards is taking on more risk, and we think returns will go down in CDC over the next five years compared to what they have been in the last five years.

In terms of how we take on that risk, that is a responsibility of the board. We have a risk committee, which we created in 2014. The board is a mixture of people with development backgrounds and people with deep commercial experience. We have a series of investment committees, which look at every investment and try to triangulate between development impact, how we are going to make the world a better place, financial return and additionality: are we substituting for private capital or adding to it? It is our commitment that we are going to achieve that. If we do not make our development impact targets, we have failed. If we fail to meet our financial targets, we have also failed.

Q19 **Richard Burden:** Could you tell us a bit more about how you measure development impact? Do you count actual jobs? Do you look at income created? What is the tool you use there?

Nick O'Donohoe: As Graham mentioned earlier on, one of the key changes in the new strategy that we agreed with DFID last year is a significant evolution of how we measure and monitor development impact. For the strategy period from 2012 to 2017, the development impact was measured by looking at the countries in which we invest; the sectors in which we invest; the number of direct and indirect jobs we create, which has been reported every year; the amount of taxes that the companies we invested in pay; and the amount of power they generate. That was the situation. We still do all of that, and it is important that we continue to do all of that. It has been effective over the five-year period.

One of the commitments we made as part of the new strategic framework, based on feedback from the National Audit Office and others, was that we needed to have a more sophisticated and robust way of looking at development impact. We have instituted a number of changes and are in the process of instituting changes in the way we do that.

We now report specifically, on every investment that we make, a clear development case as to why we are doing it and who is going to benefit from it. That is available publicly on our website. We have specific strategic themes around climate, gender and job quality. Some of you may have seen last week that we published our gender strategy, which talks about the role of women in businesses, management, boards and so on. Hopefully some of you have seen, as part of the G7 at the weekend, the announcement that the G7 DFIs together were committing to invest $3 billion in businesses that benefit women. That is an initiative that was led by CDC with OPIC, and we co-ordinated and orchestrated the other European DFIs alongside us. That is an example of an enhanced approach to thinking about our development.

We mentioned earlier the ability to take more risk and put money in places like Malawi, for their development, or Afghanistan, where we have corner-stoned an investment fund. That ability to move the risk spectrum along is also an important part of enhancing our development impact going forward.

Q20 **Richard Burden:** Is the new form of analysis that you do to measure development impact based on a consistent economic modelling that is applied in different places, or does it vary from country to country?

Nick O'Donohoe: We take a consistent approach across the countries that we invest in. Obviously, each individual country's circumstances are different. Perhaps the key sectors that we might invest in in those countries would be different, but we try to have, as far as possible, a consistent approach to things like job creation. How you measure job creation is consistent across all the countries.

Q21 **Richard Burden:** The last question is on a different issue. When your predecessors appeared before this Committee, we had things to say about CDC's habit of investing offshore, in particular in tax havens. Where are you on that now?

Nick O'Donohoe: We do use offshore. First, I should say that, as I mentioned, one of the metrics that CDC looks at most closely is the amount of tax that is paid by the companies we invest in. We absolutely expect all our investment companies to pay taxes in the jurisdictions in which they are located.

We have used in the past, and continue occasionally to use, offshore, neutral jurisdictions for our investments. We do that—it has been talked about in this Committee before—for a couple of reasons. The first is to provide legal certainty, because, in some of the countries we invest in, the legal systems do not sufficiently protect the assets that we are investing. We also do it, importantly, because our aspiration is to mobilise more money than just our money, so bringing in other investors from non-UK jurisdictions. When you are bringing together a group of investors into one vehicle, it is often more efficient to do that through an offshore vehicle.

It is also important to say that we recognise this is a moving target, and we want to be, as stated, very much driving change in this area. As much as possible, we want to invest in vehicles that are located in the companies that we are investing in or in the UK. I cannot tell you that we never use offshore jurisdictions, but I can tell you that we seek to minimise it. As much as possible, where we have done it in the past, we seek to repatriate it, and have done that with some of our investments.

Q22 **Richard Burden:** What changes have there been in terms of the proportion, for example, invested in tax havens compared to what was there before?

Nick O'Donohoe: I could not give you an exact number. I am happy to look into that.

Q23 **Richard Burden:** Could you write to us?

Graham Wrigley: We can do that. The trend has come down significantly.

Q24 **Mr Lewis:** You have touched on this, but how much additional investment do your investments mobilise in developing countries? How much of that will genuinely be private capital as opposed to other DFIs and financial institutions? How can you demonstrate additionality? What is the evidence?

Nick O'Donohoe: We report mobilisation every year. Last year the number was about $800 million. That includes other DFIs as well as private capital. One of the key strategic goals of the new strategy is to increase our mobilisation efforts. Yesterday, for example, we hosted an event in the City of London drawing together mainstream investors to talk about how we could get more of their capital into the countries in which we invest, so it is a critically important part.

On additionality, I could give you a very long answer. The short answer is that we aspire for all our investments to be additional. That can mean financial additionality, meaning that we are investing somewhere that no one else would invest, but equally it can also mean value additionality. It can mean that we have an effect on the way this company is managed and run that we believe is different from other sources of capital. We look at both.

Graham Wrigley: We created a policy in 2014, and every investment is reviewed against those criteria.

Q25 **Lloyd Russell-Moyle:** CDC is comfortable in investing in businesses that create employment, generate income and earn foreign exchange, but whose product itself is not necessarily for the social good—shopping malls, tourist hotels, et cetera—and does not fundamentally change the economy in the country, but just continues particular trends. How do you justify that to a public that is quite sceptical, particularly about aid and ODA spending?

Nick O'Donohoe: We believe our role is to both create jobs and provide affordable access to goods and services for poor people. Both are our objectives. Sometimes those objectives are perfectly aligned; sometimes they are not. You mentioned construction, for example. Whether it is housing or shopping malls, construction is a significant source of employment for poor people in the countries in which we are investing. We do make those investments. Likewise, we also invest in companies that are focused on providing goods and services.

Q26 **Lloyd Russell-Moyle:** Do you have any particular focus to try to transform economies rather than continue the trend that the economy is going down? For example, as CDC, only 2% of your investments were in manufacturing, whereas for your German equivalent it is 20%. The reliance on commodity prices and financial flows continues the vulnerability in these countries. Is there any strategic planning to say, "We are going to try to invest in things that will transform this economy for sustainable, long-term production"?

Nick O'Donohoe: The seven key sectors that we have are all, in their own way, transformational. The manufacturing example you mentioned is a good one. One of the reasons why DEG, our German counterpart, has a significantly higher percentage in manufacturing is because it has a broader geography in which to invest. Frankly it is easier to find manufacturing investments if you are investing in south-east Asia, China or some of the other countries that they invest in.

We believe that in their own way, whether it is infrastructure, financial services or manufacturing, these are all transformational sectors. That is why they have been chosen.

Graham Wrigley: In manufacturing, we are recruiting a team to focus on that. We spent a long time in Ethiopia—Hawassa. We visited the board. You are right: we do not do enough; we want to do more.

Q27 **Lloyd Russell-Moyle:** For your latest financing with Standard Chartered Bank in Zimbabwe, the press release talks about wanting to invest in manufacturing and agricultural sectors, with processing beyond it. Is there any detailed plan of how you are going to do it or is it just wishful thinking? The press release was nice and shiny but did not have any detail underneath it.

Nick O'Donohoe: On that particular investment, the objective is to support operating companies in Zimbabwe in a number of sectors. Many of those companies are operating today at 20% capacity. That is why we did the investment. That is why we did it now. By giving them access to funding now, they can increase jobs and output now. There is a specific list of about 15 companies in which we expect those investments to be made. Some of them are in manufacturing; some of them are in agriculture.

Graham Wrigley: In the last five years, CDC has begun focusing on two sectors: infrastructure and financial services. We have great teams. It is a big part of our portfolio and we can show you those things. The teams that Nick is recruiting now are starting to develop those in manufacturing and agriculture. If we have not executed on that in five years' time, we will have failed against our targets.

Q28 **Chair:** Thank you very much for being with us today. Please feel free to stay in the gallery to listen to the second panel. Thank you very much to both of you for your evidence. Can you be very brief, because we are overrunning?

Graham Wrigley: As part of our attempt to increase transparency in communication, we are having, at Lord Collins's suggestion, an annual event for all stakeholders across parties. It is on 10 July at CDC, and you are all invited.

Chair: Thank you very much indeed. That was a nice plug.

Examination of witnesses

Witnesses: Lord Bates, Rachel Turner and Melinda Bohannon.

Q29 **Chair:** Welcome, Minister, Melinda and Rachel. Thank you very much. We have about a dozen areas that we are going to try to cover with you over the next hour, so I will try to keep pace in accordance with the available time.

Let me start. We are looking here at DFID's economic development strategy. It would be really useful for us to get a brief overview of what you see as the added value of the economic development strategy in contexts where there may already be a very strong country programme and/or humanitarian aid programme. What is the economic development strategy adding in those country contexts?

Lord Bates: It is good to have the opportunity to set this out. The direct answer to your question is of course that we work with the country offices, which have their country diagnostics, and they identify the barriers to growth in those individual countries. They will change country by country because economics is all about comparative advantage. The challenges will be infrastructure in one country, corruption in another, and skills in another, et cetera. They will very much inform the overall strategy.

The top-down approach, where the two meet, is that we have a very clear ambition. We are signed up to the sustainable development goals. SDG 8 and 9 directly relate to what we are talking about today, but really it has a bearing on virtually all of the sustainable development goals. That is our objective. We know that, to achieve those SDGs by 2030, we require annual investment of $3.9 trillion, as it has been estimated. We know that the actual amount coming in is about $1.4 trillion in investment, so there is a funding gap of $2.5 trillion. Of the $1.4 trillion, global aid flows are about $140 billion.

The point is that, if we are going to achieve this, every bit of investment must be catalytic. That is what you have been hearing about before. We believe in the catalytic approach. The second part of it is that no country has ever succeeded in lifting itself out of poverty while leaving half its population behind, so therefore the gender equality part of this is a very significant element. Both of those themes—the catalysts, private investment, trade, et cetera; and gender equality, growth and education—play together to give you a meta-narrative to what we are trying to achieve. It is then informed on a country-by-country basis by the diagnostics.

Q30 **Chair:** Can I welcome what you have said, and particularly the emphasis on the SDGs and leaving no one behind? Are you therefore within this strategy prioritising firstly the lowest-income countries—so the focus on poverty reduction and inequality is at the heart of this—and then within those countries the most vulnerabilities communities, including rural communities? Is there that prioritisation in the strategy?

Lord Bates: First of all, the fact that we have a strategy is a step in the right direction. We have gone through a lot of our life as an institution without one, and now we are bringing together and seeking to articulate it. Then of course it feeds in. We have, as CDC has, a mandate to focus 50% of our work in fragile and conflict-affected states, and in the most difficult places. That is the additionality that we bring.

By and large—this is a sweeping statement—the greatest poverty is in the rural areas, because they lack connectivity. Connectivity is the key. It is not surprising that often the countries that are making the fastest progress in economic development now are the smaller or highly-urbanised countries, where that can be achieved, and the ones where there is a great struggle are those with the largest rural populations. Both those elements are covered in that wider strategy.

Q31 **Chair:** You will know that we published a report last week very critical of the overseas development assistance being delivered other than via DFID, so by other Departments and cross-Government funds. In particular, we were very critical of the Prosperity Fund and some of the choices that it makes in terms of where its funding goes. Is DFID not under pressure from the rest of Government, because of the broader context of Brexit and the importance of trade relationships, to prioritise countries with whom we might be able to trade, which could be at the expense of the excellent things you have been saying in your answers about the SDGs and poverty reduction? Is there that pressure on the Department from the rest of Government, including the Department for International Trade?

Lord Bates: We do not necessarily see this as either/or. You can actually achieve both here. We are driven across Government by our aid strategy, which sets out strengthening peace and security, resilience to crises, promoting global prosperity and tackling extreme poverty. Those are the four things across Government that we are seeking to achieve. Promoting global prosperity is clearly an element of that. The Prosperity Fund, therefore, in investing and working with countries that can contribute to that wider mission of raising the tide generally, is a very important part of it. We see it as complementary, the prosperity agenda. The more economic growth there is, the fewer people will be in extreme poverty. That has been the story of the past 20 years.

What you have to ask is: are we actually deploying our efforts really at the most difficult end of the spectrum? That is what we have to focus on, particularly in the Department for International Development.

Q32 **Chair:** Can you give us an example or two of where you are now focusing on economic development in really challenging and difficult places that are not necessarily the places that we are seeking lucrative trade arrangements with?

Lord Bates: We can give that.

Melinda Bohannon: There are a couple of examples: one would be the occupied Palestinian territories; another might be Afghanistan. In the occupied Palestinian territories, the task of economic development and job creation is incredibly hard, for obvious reason—primarily, restrictions on movement. Actually, the Palestinian private sector is extremely resilient. If you speak with Palestinians, many have jobs in small businesses that are struggling to trade. Some have roles in businesses with aspirations to export across the Middle East, and some globally. It is an incredibly important part of the peace process, to bring economic benefits to those companies and individuals who want to work, and who see benefits and dividends to stability, therefore.

There is a very active programme of work both through our programmes, but also through our partnerships there, to do things like infrastructure development, support to SMEs and support to female entrepreneurs, for example.

Q33 **Chair:** That sounds like an excellent example. How big is that in terms of the amount of money being spent compared, say, to the Prosperity Fund's investments in the Chinese film and fashion industries?

Melinda Bohannon: It is relatively small. We can write to the Committee with exact figures. The point is that, in terms of relative political emphasis for HMG overall, a lot of political capital would go into defining the scope of those programmes with the Government, and talking about that with Palestinian civil society. Of course, the area of the Middle East peace process is hugely important for HMG. The overall impact and influence that goes into shaping that is very well considered.

Rachel Turner: To your question on scale, you would find similar programmes across the geographies where we work: economic development programmes that are targeted at the rural communities that the Minister mentioned and the most marginalised. In north-east Nigeria, for example, we have a programme explicitly focused on excluded youth and integrating youth into the economy. We have a programme in northern Uganda where we are particularly working on building up economic opportunity in areas where the South Sudanese refugees are, for example. We have a programme in the Niger Delta in Nigeria. In northern Ghana, we have a programme working on skills and integrating young people particularly into the agricultural economy.

We have a big portfolio of work specifically targeted at these issues of inclusion and integrating vulnerable people, and remote communities, into the economies of the countries where they live.

Q34 **Paul Scully:** Melinda, can I start with you? When you gave evidence to the Sub-Committee in February, you argued that, even in countries where the investment climate is relatively hostile—this was about some of the ICAI reports—there are ways and means to work on economic development. Can you give an example or two of what you meant by that?

Melinda Bohannon: I suppose the overall narrative and strategic context, as set out in the economic development strategy, is that economic growth is not something that matters only to a handful of countries or a subset of populations within those countries. The strategy is about driving inclusive growth, spreading the benefits across society and delivering the SDGs. The strategy assumes that and is clear that economic development is relevant to all countries, but the way in which we go about it needs to be focused on the context.

The way in which we would go about articulating that is both through our analytical understanding of what is really going on in that economy, behind the way in which the state is operating and behind who owns the wealth, resources and rent, but then also suiting our programmes very much to context, so we are not playing into the hands of elites and focusing on the benefits of the few relative to the overall systemic growth that we are trying to achieve.

The Palestinian context would be one such example of a very, very different investment and enabling environment for growth, but there are also other examples, for example in Afghanistan, where we have programmes that are focused on supporting the enabling environment for reforms so SMEs in particular can thrive. In Jordan, we have a growing portfolio of economic development activity that is really about trying to bring foreign investment into that country.

Even countries that might be described as "relatively stable", and that are not traditionally seen as having a difficult enabling environment, may have circumstantial or time-bound challenges. Tanzania is quite difficult at the moment because of the Government's policy and approach, which is creating a lot of uncertainty. There again, it is about using our diagnostic tools, dialogue and relationships with Governments and civil society to get a proper handle on what is likely to drive systemic change and where we can be most effective in making smart choices.

Q35 **Paul Scully:** Are those ways and means, as you have described, available to national donors and DFID, and not to private investors, however large those private investors might be?

Melinda Bohannon: Could you clarify the question, please?

Q36 **Paul Scully:** You talked about the ways and means. You have described and clarified them, but are they only open to national donors? Can only national donors leverage those ways and means, rather than a private investor that may be large and nonetheless would not be able to do that?

Melinda Bohannon: There are two angles. First, whenever we talk to the private sector in those countries, they are actually very savvy. In particular, they have presence on the ground. They will have their own contacts, information and relationships, so we often find that they are the ones who know where the investment deals might be, what the opportunities might be, and take that very long-term perspective of what the economic transformation and growth story is likely to be in that country. That is why they are there.

DFID's approach in country would always be to work firmly in partnership. In a country office, from a very practical point of view, a typical DFID economic team would have strong relationships with Government, the private sector and all the donors; they would be sharing analyses and information, and doing the diagnostics jointly. The whole point is that we are trying to develop that community of practice and engagement that follows the same line of thinking about where the opportunities are likely to be, and calling out where there might be differences in interpretation or understanding about the short versus long-term benefits.

Q37 **Paul Scully:** In a country where the investment climate is hostile, small-scale agriculture is crucial. In February, you explained that both DFID and CDC were going to be looking at how to make smallholding more investable. How are you getting on with that?

Melinda Bohannon: Very well. There are two angles. Firstly, we have deepened our understanding through analysis that we have done on particular products and value chains, which stretch down into smallholders, but also internationally—so-called global value chains—that are important and helpful to work on in the likes of Malawi, for example, and a handful of other countries. Poultry is such an example.

Our team now are looking—and this is just one example of a programme; there are multiple others, and DEVCO has multiple others—at what the benefits might be of bringing smallholders into that value chain and how we will go about doing that. We are continuing the conversation with CDC about how we can work with it, such that it can exploit the investment opportunities in Malawi, for example, and how we can work alongside it to maximise those linkages back into the agricultural sector, to bring smallholders in.

That is one example of a programme, and DEVCO obviously has many examples of doing very similar work. Our judgment across the sector as a whole is: where do you place your investments in a smart way such that you are investing in very early-stage, high-risk programmes—the ones that are really going to have the benefits if they work for smallholders—all the way through to working with more investable larger companies, and working with multinationals to export?

Q38 **Paul Scully:** Lord Bates, ICAI has been critical of some of the areas in previous reports, when it talked about DFID's high ambitions on economic development without clear, joined-up operational plans and targets. What has DFID done in response to that in the last few years? That would have been back in 2014-15.

Lord Bates: As part of the journey that you are referring to over the past couple of years, and certainly in recent years, you have had the launch of the strategy, which is in itself an effort to get some kind of co-ordination to what we are doing. There is a wider strategy that we have. We have done a lot of work, and perhaps Rachel or Melinda could say more, on the country diagnostics and data analysis as to how we assess matters.

We have been making some progress. Often in these areas the great shortage is data and reliable sources of data. We have been doing work with the World Bank, for example, to actually improve that data collection and its richness. The quality of the data is essential, not just for us to know how effective we are, but if we are being catalytic and trying to get other firms to come and invest, it is critical that they have a good grasp on the data as well.

Melinda Bohannon: In response to the economic development strategy, every country office has a response plan—a set of arrangements, programmes and priorities relevant to that context. Through various follow-ups and conversations that we have with them, we are helping to add value to the way in which they think about that.

The diagnostic that Lord Bates is speaking about is something that we are going to pursue with country officers over the next few months. The purpose of that diagnostic is to take us one notch even further, to really understand the underpinnings of economic transformation alongside state capability, resilience, human capital, governance and conflict, for example, so that country offices can make choices about their economic development priorities and how they fit inside all those things.

Q39 **Paul Scully:** You did not mention the Prosperity Fund at all in the strategy. It is not mentioned. What evidence do you have that you are going to be able to deliver the strategy better with the same level of funding and with the ongoing spread of delivery mechanisms, including the Prosperity Fund?

Lord Bates: The Prosperity Fund will be allocated to the investments. In fact, even the working of that is worth noting because, of course, there is cross-Government management on that—there is an inter-ministerial board on which I sit and represent the Department for International Development, and trade is represented, et cetera. There is a joined-up element on the prosperity agenda. The projects linked to prosperity are really in the process of getting going, but we have very clear ambitions as to what they are going to deliver.

As I said at the outset, that is part of the 2015 aid strategy: one strand is prosperity, with £1.3 billion in that over the spending period, but the major part of our focus at DFID continues to be in the most difficult areas in the "leave no one behind" agenda, promoting economic development there in fragile and conflict-affected zones. We remain focused on that and retain an interest in the Prosperity Fund, ensuring that it is aligned with our overall aid strategy.

Q40 **Paul Scully:** All the ICAI evidence to date suggests that micro-level business development has provided the success stories in economic development. What evidence do you have that the higher-level macroeconomic development trickles down significantly to the poorest and reduces poverty at the level of those most in need?

Lord Bates: Again, it is both. When you talk about the macro element of it, if you look at somewhere like Hawassa Industrial Park in Ethiopia, which is where the strategy was launched, it is generating 60,000 jobs in the garment industry. What we know is that when you get clusters of economic activity and specialisation, you then spin off lots of other small microbusinesses feeding into that, supplying into that and catering for that industry. We know that it works that way.

M-Pesa is often referred to, and we keep coming back to it. It is a fantastic initiative in terms of mobile telephony. What that has enabled for microbusinesses—in terms of the transformation and scale of business transactions conducted over mobile phones—is incredible in the areas that it covers. Again, it is coming back to the point about connectivity. We can put in infrastructure. Lots of microbusinesses cannot survive because they do not have power, so the fact that we are making solar power available in lots of rural communities is completely liberating, and the fact that we are connecting them to mobile telephone communications is transformative.

These are all the things that we are looking at. You can be at both ends of the spectrum economically, but still effectively involved in development.

Q41 **Mr Evans:** I have one add-on. Melinda mentioned Malawi. Zimbabwe was once known as the food basket of the world, and Mugabe fairly well wrecked all that. Now we have Emmerson Mnangagwa as the President and they have elections at the end of next year. I met the Speaker of their Parliament in March with the IPU, and he spoke about the desire of Zimbabwe to come back into the Commonwealth, and all that. Clearly there is now a different backdrop to that country. Are you looking again at what you can do in terms of giving assistance to the country?

Lord Bates: Harriett Baldwin, my ministerial colleague, is leading a refresh of our Africa strategy at the moment and we are looking at those new opportunities. Zimbabwe is a key one. The other thing is that we have actually been there throughout. There is a great initiative called the Africa Enterprise Challenge Fund that Lord Boateng is involved in. It has been doing some terrific things on a micro basis in agribusinesses in Zimbabwe. Melinda will add more.

Melinda Bohannon: That is exactly right. We very recently had an economic team out in Zimbabwe working with the country office there to look across the range of possibilities to work in a careful and politically savvy way with the Government on agriculture, manufacturing and infrastructure with small businesses. We are well prepared to make the most of political openings as they happen.

The point there is that the brand of our ec-dev work is to think strategically; think about the offer that you are preparing at the centre in order to work effectively with country offices; and think about the way in country that you can make links to all these programmes that we have, whether it is CDC, the International Growth Centre or agriculture and the Africa Enterprise Challenge Fund. That is a good example of where we are prepared to move quickly in a complex environment.

Q42 **Chair:** Minister, can I take you back to the Prosperity Fund? You mentioned your own role on the board, and you said that the Department takes an interest in the Prosperity Fund and seeks to ensure that it is aligned with the Department's priorities. Do you think it is aligned with DFID's priorities?

Lord Bates: It is most definitely aligned with the 2015 aid strategy that we have across Government, because global prosperity is one of the four objectives of that.

Q43 **Chair:** Its objectives are great but, in terms of what it does and where it chooses to spend its money, do you feel it is really focused on poverty reduction and the sustainable development goals?

Lord Bates: Yes, because it is creating wealth, and we are involved in that. You have to create wealth and find ways of creating wealth in order to eradicate extreme poverty. As I said right at the beginning, that simply cannot be done with $140 billion of aid flows when there is a need for $3.5 trillion. That is the reason why the international community had the Billions to Trillions agenda. A lot of the criticism comes from some of the countries that we are working with—typically India, China and Brazil—but 70% of the world's poor live in middle-income countries.

Q44 **Chair:** I totally accept that and the premise of the Prosperity Fund is very focused on middle-income countries, but do you really think that the projects being supported in those middle-income countries are benefiting the poorest in China, India and Brazil? The evidence that we took suggests very strongly that that is simply not the case.

Rachel Turner: I will maybe say a word about the Prosperity Fund and how we see the interaction between the Prosperity Fund and the economic development strategy. The Prosperity Fund is very clear that its focus is on supporting better regulated, more open, better run, less corrupt and more stable economies, and those are the better-off economies. That absolutely matters for the poorer countries where the focus of DFID's work is.

If the Prosperity Fund programmes succeed in tackling some of the improvements to the ways these economies are run and the removal of regulatory barriers in many of these better-off countries, that will also help the poorer countries trade with those parts of the world. It will help poorer countries receive better-quality investment from them. It will also drive out some of the systemic causes of corruption, and the Prosperity Fund has quite a strong focus on driving out corruption. Although this is a separate fund and is stewarded by the overall aid strategy, as the Minister said, we feel that, if it works and if the programmes deliver, it will have knock-on benefits for the poorer countries that are our focus.

Lord Bates: Chair, if I could just give a couple of very brief examples, the Centre for Global Disaster Protection, which is just about to be launched in the City, leverages our world-leading expertise in the UK in insurance products. It is looking at how you protect the poorest communities against the effects of disasters, whether they are happening in the Caribbean, in Nepal or in many areas around the world. Often, the least resilient communities are the poorest communities so, when disaster strikes—whether it is cyclones in Bangladesh or wherever—the poorest are hit. The fact that we are doing pioneering work, to see how we can leverage private-sector investment and insurance know-how into providing some protection for those communities, is really important.

We know that nothing moves without capital, and yet access to capital for the poorest countries and the poorest communities is absolutely critical. We have a global finance programme seeking to leverage our pre-eminent role as a financial centre and a centre for capital to remove barriers to achieving greater capital investment. Those are two cross-cutting examples of where the Prosperity Fund is working, and which I believe absolutely support our wider effort.

Q45 **Chair:** I do not want to sound as though I am obsessed with the Chinese film and fashion industries, but how on earth do those programmes through the Prosperity Fund fit with what you have just said in answer to my question?

Lord Bates: We continue to have programmes—

Q46 **Chair:** DFID would not fund those. DFID, quite rightly, decided to reduce the number of countries with which we would provide bilateral aid, including China.

Lord Bates: First of all, I do not understand this specific one; perhaps someone can come in on it. We work through the British Council there. We have a cultural programme that we support. That might be part of it. We know from every economy that culture is not only a good thing, but it is—

Q47 **Chair:** I agree, but this is China. We are not talking about a low-income country.

Lord Bates: It is right that we are constantly challenged on what the details are, but we have a clear mandate that what we are trying to do with that is to create wealth in middle-income countries, in the belief that that will help spread prosperity and reduce poverty.

Q48 **Richard Burden:** You put some considerable emphasis in your answers so far on making sure that your economic development programmes address issues of gender, and the economic development strategy makes strong commitments on gender, young people and marginalised groups. I would just like to press you a bit more on what that means in practice and how you are delivering on those commitments. In particular, what tools do you use to measure the impact on gender, young people and marginalised groups?

Melinda Bohannon: Women's economic empowerment is a critical theme of the economic development strategy. As I mentioned before in the hearing on the ICAI review, a lot of thinking has been put into women's economic empowerment priorities since 2015, when the SDGs were agreed. There has been a very big push through the High-Level Panel on Women's Economic Empowerment, for example. DFID sees itself very much as a supportive, pioneering organisation in that regard, and we have a number of programmes on women's economic empowerment, inclusion and gender across many of our countries. We are also about to launch our strategic vision on gender.

Conceptually and in terms of research, have we really understood the challenge? We have done an awful lot. Practically, when it comes to shaping policies and programmes, we have a commitment to data disaggregation. As is very much the theme of understanding progress against the SDGs, it is important to fully disaggregate data to know the impacts, whether it be by age, by sex or by ethnicity. That is a clear commitment that we are working towards, and some of our economic programmes—for example, in Nepal—really strive toward that disaggregation of data by sex so that we can know the extent to which women are beneficiaries of those programmes.

We also have particular programmes on women's economic empowerment. One such, which is run by my department, helps different teams across the organisation pick up good opportunities to work on women's economic empowerment in those countries. An example of that might be Jordan, where women's participation in the labour force is very low. Understanding the systemic barriers to women's inclusion in the labour force is important there, to really think hard about what can be done.

Another example is working with multinational companies and large retailers that source in many of the countries in which DFID works, to look at the barriers to women being included and employed in those value chains, and increasing the number and quality of their jobs and roles in those value chains. It is very much that systemic perspective: what are the barriers to women's inclusion in the workplace, whether they are assets, informal norms or legal barriers? How can we tackle those? Very practically, what can be done in the countries in the context in which we work?

Lord Bates: Could I just add to that? In the strategy itself, we set out in section 5 how we will assess and report. We put under there that we will track indicators, such as the number of women supported to improve their rights to land and property. We have a number of projects to do that. We also look at the number of different countries with improved performance in women in business and law data. We have specifically committed to collect our own data as to how we are moving in that very important direction.

Q49 **Richard Burden:** Are the tools that you use for that and the analysis that you bring to bear common across countries, or are they developed locally in terms of assessing the impact on not only women but young people and marginalised groups generally?

Lord Bates: They will be common across all countries, because consistency of data is vital to know whether we have achieved our objectives.

Melinda Bohannon: I do not want to take the conversation too much into standardised indicators, methodologies and so forth, but certainly, for DFID, having standardised indicators for the way in which we are tracking our economic development progress is very important. A large part of the organisation is really thinking hard about how we trace beneficiaries, how we monitor the impact on them and how we disaggregate.

At the other end of the spectrum, we really need to understand the theory of change between the intervention and the impact on the beneficiary. It is about applying brainpower at both ends: what the intervention should be, the theory of change behind that, how that links to economic transformation and inclusive growth, and the focus of the intervention itself. We have embedded in our smart rules the gender Act, so we need to consider hard, across all our programmes, the impact on the gender balance. Then it is about understanding and being able to track, through data, methodologies and tools, how women are benefiting but how other marginalised and disenfranchised groups might be as well.

It is a complex and hard thing to do, for all the reasons that Lord Bates gave at the start. Data is very weak. Many of our programmes work very deeply in country and very deeply in supply chains. We have to get the balance of investment right between designing the programme and really being able to grip and understand what the impact is.

Chair: Thank you very much, Richard. We are, as Chris has just reminded me, running about 15 minutes behind. Can I ask for slightly shorter answers to the questions?

Q50 **Lloyd Russell-Moyle:** 20 million new jobs will be needed each year over the next 25 years in Africa, and 2 million, for example, in Bangladesh. If these trends are extrapolated across to 2050, the new jobs required would be almost equivalent to the entire European population. Is the world doing enough—and are we doing enough—to create these jobs in sub-Saharan Africa?

Lord Bates: I am conscious of the fact that we are running 15 minutes late, and it would probably need a 15-minute answer to do that question justice. The short answer is that we could never do enough to do that. Are we doing things? We do not believe that we alone can be the answer because, as I said at the beginning, the scale of the challenge is so great that we have to focus on being catalytic, and everything that we do must have a big multiplier effect attached to it. But there are some causes for optimism.

Some of the fastest-growing economies in the world this year will be in Africa. Ethiopia, where we have had major involvement, will be growing at over 8%. Countries like Côte d'Ivoire and Ghana are great stars and really growing very well. Tanzania is doing well. Also, as other countries such as Zimbabwe come back into the fold, as it were, the potential to achieve that is significant. As I will come on to perhaps in a later question, the crucial element is conflict reduction, because conflict is really what scuppers all the ambition. The potential is enormous for Africa but, so often, it is frustrated by protracted conflicts.

Q51 **Lloyd Russell-Moyle:** One thing we know about conflict is that reliance on certain kinds of products in an economy can help to exacerbate conflicts. Of course, the economic development strategy has a focus on economic transformation to try to change economies, but what does that mean in practice? Have we worked out a strategy in each country to see how their economies need to change? Do we have a vision of how that journey will go? Is it just the same as the east Asia model, or do we have a specific model for Africa along which we expect development and economic transformation to go?

Lord Bates: It is a mix, as I was saying right at the beginning. We feel that we can have the greatest impact by being very country-focused, but there is a wider vision for Africa at the moment, through our work not only with our EU partners but with the G20. There are some very significant things. The announcements that were made just last weekend at the G7—they were slightly clouded out by other activity—around girls' education, particularly focused on Africa, were all steps in that direction. There is a tremendous amount happening in Africa itself: the African Development Bank, the African Union and the free trade ambitions.

A lot of good stories are so often clouded out because of conflict. We have to look and say, "Listen, we have a limited resource and there is big demand. How do we deploy that, and where can we deploy that, to have the greatest catalytic effect?" The country diagnostics help to inform us about that, and we make decisions based on that. That is probably the shortest answer.

Q52 **Lloyd Russell-Moyle:** How much job creation do we think is happening because of our input—as you say, it is limited—and do we have a quantifiable number for that?

Melinda Bohannon: We will be doing more work on looking at our jobs numbers, both directly through our bilateral programmes and through our working with partners, and the intention is to talk to Ministers about making that public as part of future annual reports and departmental plans.

Q53 **Lloyd Russell-Moyle:** We do not have a baseline of just our activities and what they currently achieve.

Melinda Bohannon: Measuring jobs is a very hard thing to do, and we do not want to put anything out into the public domain that is not well evidenced. But we can assure you that we are looking very hard at what the right approach is to qualifying a job, measuring that job and attributing it to our engagement.

Q54 **Lloyd Russell-Moyle:** Do we really understand what it takes to create a job in a developing country, or is it all just witchcraft and magic?

Lord Bates: No, it certainly is not. In relation to this, sometimes we make, in my view, a major mistake in believing that economic development or poverty is any different, wherever it is found in the world. The solutions in Africa are no different from the solutions in the United Kingdom or elsewhere in poor countries about how wealth is created and people are lifted out of poverty. We know that we can have a catalytic effect in terms of foreign direct investment. We know from our own country the beneficial catalytic effect that that can have.

One of the problems with poverty is capital flight: the money moves out of the country. The fact that more money is flowing out of Africa than is flowing into it is still a major problem that we have to find ways to reverse. Remittances are a major part of economic development, and the cost of those remittances is too high because of the de-risking of banks. It is multifaceted, and how you go about it is incredibly sophisticated, but you certainly need capital. You certainly need education and skills. Most importantly, you need connectivity. You need industrialisation, urbanisation, infrastructure and technology to go into that mix to deliver the outcomes that we want.

Q55 **Lloyd Russell-Moyle:** You mentioned remittances. Of course, the WTO's fourth mode of development talks about natural people moving to country and sending profits or remittances back. You recognise it as one of the areas through which development can be aided, so what is the British Government doing to encourage people with skills to come to the UK and to help them to get those jobs easily without high visa barriers, so that they can remit money back and provide development for their countries? Are we providing an aggressive, hostile regime that does not support their development?

Lord Bates: You are leading me, very skilfully, into a minefield where others have trodden. It is a fact: we know that the total aid flows to Africa that come from UK bilateral aid and remittances are roughly the same amount. We also know that the cost of sending those remittances back to Africa has gone up as banks have come out. Because of anti-money laundering legislation and de-risking et cetera, the cost has gone up. We are now at the pioneering end of trying to come up with fintech solutions—that is part of the work that we are doing—to reduce the cost of sending those remittances. That is a classic benefit that we can achieve.

Q56 **Lloyd Russell-Moyle:** For those who are already here, we will try to make it easier for them to send money back, but we have drawn the drawbridge up for any new people coming to be able to develop their countries in that manner.

Lord Bates: It is a wider issue of immigration and migration policy, which is set across Government.

Q57 **Lloyd Russell-Moyle:** Does the migration policy of other Departments harm the work of your Department?

Lord Bates: No, I could not say that. Listen, at the end of it, we need people. One of the most wonderful things that we are involved in, in terms of long-term economic development, at the Department for International Development is our funding of the Commonwealth Scholarship programme. It is absolutely phenomenal. We spend money and we bring people here to study hard-edged and scientific finance, taxation or public-health skills. We give them an incredible experience in this country, on the understanding that they then go back and deploy that learning and expertise in leadership in the countries from which they come. The success stories from that programme, which has been running for almost 50 years, are phenomenal. We have to be really careful that we do not draw talent permanently out of the countries that need that talent most in order to develop themselves. It is a careful balance and we have to keep it constantly under review.

Q58 **Lloyd Russell-Moyle:** I totally agree with you about the Commonwealth Scholarships. In Uganda, I met with a number of our Commonwealth scholars there, who found it very useful. In the past, of course, poor countries have depended generally on the development of cheap labour and, with the introduction of automisation and AI, there is a real risk that the development pathway that other countries have managed to take from cheap labour, building into slightly more technical goods and upwards, will be cut off for new countries coming along that journey. What is the Department's thinking about how we can mitigate this, or how we can create new pathways for countries to develop that maybe have not existed before?

Melinda Bohannon: We do not know yet—and when I say "we", I am talking about the world—what the impact of automation might be on low-skilled labour. Clearly, the economic trends would suggest it could potentially be very high, so it is right to say that our economic transformation, with an emphasis on manufacturing and moving up the value chain, is potentially at risk, particularly with robots in apparel, for example. We need to keep a very close eye on trends. It is by no means apparent, and there are conflicting views about the extent to which industries in Africa can make use of that in the same way that the Chinese have, or other parts of Asia, such as south Asia. Also, we need to make sure that we have—and, quite often, Governments in Africa have set the tone and the pace on this—good conversations about what their economic transformation needs to look like.

We find there is a lot of interest in the e-economy, the digital economy and leapfrogging, particularly making use of new technologies. There is really savvy thinking about their own integration into global value chains and how they want to train their workforce. African Governments—certainly the ones we work with on economic development—are not behind the curve but the question is their capacity, their capability, their skills, their infrastructure and their connectivity, exactly as Lord Bates says, to be resilient to a range of possible growth pathways.

Q59 **Lloyd Russell-Moyle:** Are we serious about the transfer of technologies at cheap or sub-market prices to those countries, as has been agreed in international agreements, to make that leap possible?

Melinda Bohannon: In climate resilience, for example, there is a huge emphasis on technology, being at the cutting edge of renewable technology and being able to apply that in energy infrastructure. That was very much the emphasis in the post-2015 declaration: the role of technology. It is unclear that there is some secret technology locked away somewhere that somehow one is inhibiting developing countries' access to. We want countries to develop and acquire their own technology paths, and we are supporting and helping them to do that.

Q60 **Lloyd Russell-Moyle:** Finally from my side, how is DFID focusing on working conditions and quality of work, and is it considering anything along the lines of the Dutch multi-stakeholder agreement for full transparency of supply chains?

Lord Bates: Firstly, the commitment that we have is, of course, for decent work and for decent jobs. Therefore, if we are going to achieve the sustainable development goals, we have to deliver on that commitment. There are examples, of course, of what we have been doing with the International Labour Organisation in our work after the Rana Plaza collapse in Bangladesh. Are there others that you want to mention?

Q61 **Lloyd Russell-Moyle:** I am interested in the Dutch model in particular. That is supply chain transparency. Are we focusing on that?

Rachel Turner: Yes. I would say two things. First of all, we are really driving forward the decent work agenda through a range of international platforms, so we are absolutely committed to working particularly with the bigger, formal multinational companies to up their commitment to the rollout of the ILO core standards, but also to the whole decent work agenda. In fact, if you look at the UN Global Compact website, you can see that the specific guidance for rolling out decent work is co-authored by DFID because we led that specific working group in the UNGC. In DFID, we have required all our suppliers over a certain minimum size to sign up to the UN Global Compact that embodies the decent work principles, so that is one part of our response to your question on the supply chain.

Of course, the UK Government have also passed legislation on modern slavery that requires full transparency on modern slavery in supply chains, and that is another core part of the wider UK Government's offer to that transparency piece.

The other thing I wanted to say, because this is very interesting, is that we have been supporting a new initiative called the Workforce Disclosure Initiative, which is a partnership with shareholders, including big institutional investors, to drive labour standards up through the investee companies that some of the big institutional investors are investing in. We have been quite catalytic in organising that workforce shareholder initiative to do that.

Chair: Thank you. We are running behind. I am keen to try to draw the session to a close at around quarter to 12. That is in 15 minutes, and we have four more areas that we are seeking to cover.

Q62 **Chris Law:** You talked a little about technological innovation and climate resilience, so I want to turn to that. Does the economic strategy have a mainstream dimension that will work to encourage clean, green and low-carbon economic development, so that developing countries might be assisted in, frankly, leapfrogging what we went through in our own Industrial Revolution, which was high-polluting, carbon-rich energy? If so, how is that being done and how integral is it to your plan for development?

Lord Bates: On page 27 of the strategy, there are clear examples of what we are doing on sustainability and strengthening resilience. Power is one of the key areas on this. We have seen how, through solar power and embracing technology, the cost of solar power, which was way beyond the reach of most people who desperately need it, has been tumbling. We believe that the potential for it to go down still further is there, so we very much support that. In Nepal, we have been supporting a hydropower initiative, which is, again, going to be transformative; that is the key phrase here. It is solar in sub-Saharan Africa, which is, again, transformative as to what can be done there. It is very much wrapped in to what we are focused on in the strategy. It is a core part of our approach, in the work that the CDC does, but the Private Infrastructure Development Group—PIDG, as it is known—also does a significant amount in this area.

Q63 **Chris Law:** I wanted to know because, at Christmas just last year, the World Bank made it clear it was not going to invest in any more fossil fuel investments. I want to know: are we in the same position? Are we ruling out future investments that involve fossil fuels? Is that a commitment?

Lord Bates: We may have to come back to you with some detail on that. We have set ourselves an ambition in terms of fossil fuels. There is a different treatment in relation to coal in particular as opposed to other fossil fuels that are there, but I would probably have to set it out, unless you have the answer in front of you.

Melinda Bohannon: We should come back to the Committee.

Q64 **Chair:** Can you write to us on that? It is a very important question.

Lord Bates: Yes, it is a good point.

Q65 **Chris Law:** I have one last note. You mentioned coal. If you are still investing in coal use, are you using carbon capture and storage as part of that solution? You might have to write back about that as well.

Lord Bates: Again, we probably need to look at that piece. They are good questions to ask. Part of the strategy that I can talk about on fossil fuels is that, in a lot of very poor countries—you mentioned Zimbabwe—a phenomenally high proportion of their spend is on subsiding fossil fuels. Those subsidies are quite critical and are used by the Government, and we have a policy with our international partners of encouraging countries to reduce the subsidies that are being made. But this needs to be done in parallel: as cheaper renewables come on stream, the reliance on fossil fuels can be gradually reduced without causing social or economic disruption in the meantime.

Q66 **Mr Lewis:** Good morning. You will be delighted to hear I have a Brexit-related question. It is nothing to do with ministerial resignations, or at least that is not the intention, although there is always an opportunity. How is DFID's economic development strategy working to improve UK trade with developing countries, especially in the context of Brexit?

Lord Bates: At the moment, we are part of economic partnership arrangements with some of the poorest countries in Africa. We have already given a commitment, which is in the EU withdrawal legislation, and also the trade Bill and the customs Bill, which are at various stages of legislation. We seek to replicate that. The Government's approach to this is that we see significant potential after Brexit for us to work on offering even better deals, and to reduce tariffs and access to our markets.

We have set an ambition of being a champion for global free trade. A significant part of our agenda in terms of economic development is aid to develop trade, particularly in reducing blockages at borders and customs posts to facilitate cross-border trade. There is a huge amount to be done but our starting point in relation to Brexit is that we want to at least replicate what is there at the present time, so that none of the least-developed countries that are currently beneficiaries of those arrangements lose out as a result of Brexit. That is our starting point but we want to go further.

Q67 **Chris Law:** I want to turn to human rights and corruption. How does DFID pursue its economic development strategy in a country where there is a regime of serious concern? To give one example, in Myanmar or Burma last year there were crimes of atrocity and ethnic cleansing. Where your members are heavily invested and otherwise engaged with the nominal private sector, what is your policy and how do you mitigate when you discover that a country is in the position it is in?

Lord Bates: The premise of your question is absolutely right. Often, one of the contributing factors that hold countries back from making progress on economic development for the wider population is the enrichment of elites and corruption. A whole suite of measures have been taken by the international community, which we are playing a leading role in trying to tackle. Specifically on the work in Burma, let me say that DFID works on economic development in Burma to reduce poverty through strong and inclusive growth. We invest to undermine military vested interests and to improve the quality of business. Two examples of this work are investing in the extractive industries transparency index to shine a light on what is going on in a murky but important sector, and investing in the Myanmar Centre for Responsible Business, to promote better corporate governance, including increasing transparency and standards.

We are active on the ground. Again, the reality is that we need to be active where poor people are, and there is an incredible amount of poverty in Myanmar. We want to tread that fine line between not wanting to give succour and support to the elites—particularly the military leadership, who have been behind the atrocities that we have seen in various parts of the country—and fulfilling our mandate to help tackle extreme poverty around the world.

Q68 **Chris Law:** I have a couple of questions, then. First, at which point would you decide to pull out of a country where there are acts of ethnic cleansing or hallmarks of genocide, which Burma has been accused of by the UN? Secondly, in addition to that, are you aware—I just read this in the *FT* last week—that China is planning on investing in a $1 trillion port in Rakhine State, which is exactly the location where these atrocities are being carried out? If you are not aware of that, what steps will you take to say, "This is no longer for us"?

Lord Bates: It is fair to say that we make all our decisions on these things on a case-by-case basis. I have to tread carefully here, so I might have to write so that we get the wording precise on that, but I can say categorically that I have seen one project for Myanmar that came up to me as a business case, which I felt was completely inappropriate in the current context. We withdrew from it. It was done with the best of intentions. It was about trying to raise awareness of human rights with the military and working with them, but such was our rightful anger at what has been happening that it was unthinkable that we could have continued that work.

On the other hand, there might be other projects, for example to do with urbanisation or developing sustainable cities, which is a critical element. If we were to pull out of projects like that, we would be hitting most some of the poorest people whom we are trying to help. I would say that, probably, it is on a case-by-case basis. We have tried to avoid making a block statement to say we will no longer work with that particular regime. We have tried to step back from that and look at it on a case-by-case basis, but we are very vigilant about it.

Q69 **Chris Law:** I appreciate your candidness in telling us about a project you had to pull out of, but I am just going to go back to due diligence. What are your checks and balances to say, "We can do this but we will not do that"? How do you communicate that to the public, who are not only alarmed but deeply distressed about what is going on in areas such as Burma, where UK public funds are going to?

Lord Bates: We have a thorough due diligence process for our work with the private sector. The due diligence regime covers both funding relationships and companies with which we closely collaborate. This process identifies not only individuals and companies that have formally been sanctioned, but also those that are run by, or that have strong links to, former Government officials, cronies or the military. The due diligence aspects of this are robust, as are the wider checks and balances in the process, whereby business cases that come up have to clear various ministerial hurdles before they are approved.

Q70 **Richard Burden:** In the course of the evidence you have given, you have illustrated a number of the considerations you take into account about whether or not assistance should be given under the economic development strategy. My question relates to the last answer you gave about the fact that you make decisions on a case-by-case basis. Is there any list of criteria that underpins the due diligence you undertake and, if so, what are those criteria?

Lord Bates: As a starting point, I have to be careful because, of course, I set out right at the beginning of this evidence session our strategy and our core beliefs around what we are seeking to do through the strategy that is set out and the aid strategy that sits above it. Then, when projects are developed as a business case, they must absolutely say how they are going to meet our objectives. For example, how does this business case address gender equality or advancing women's economic empowerment? As for inclusivity, we now ask of all business cases: how does this impact on people with disabilities? All the way through, it has to meet that before it comes up to Ministers for approval in that process. Am I misunderstanding the question?

Q71 **Richard Burden:** That is helpful in terms of saying how you would assess a particular project for assistance. I suppose what I am getting at is: is there a list of criteria for countries themselves about whether or not they would be eligible for assistance, by reference to, for instance, human rights or corruption?

Rachel Turner: Yes. We have the Partnership Principles, and previous Committees have looked at those. We have a statement of the specific principles that we expect partner Governments to meet, and they cover a commitment to poverty reduction, corruption, transparency and good governance. We have a "how to" note, which was updated in 2014, that sets out specifically how we apply that policy. We are clear that we do not set one specific standard that applies in the same way to every country. The guidance note is clear that we allow for context-specific responses. It allows for direction of travel. That is the note that helps us decide how we shape our programme and how closely we work with a Government or how much we might withdraw from working with a Government and work with civil society or the NGO sector, for example. Absolutely, DFID has that codified in quite some detail.

Q72 **Chris Law:** I have some difficulty with your reply. We are a society that believes in international law and upholding human rights, yet we are making decisions on a case-by-case basis in a country—for example, Burma—that is completely ignoring all those things. I know they are difficult decisions that you have to make because, on the one hand, you have some of the poorest people on earth who are vulnerable if our support is not there; but, on the other hand, we are sending out the message that the UK will do business with Burma and it is okay by us. That is a real challenge that perhaps DFID has to consider. I am sure that other members of this Committee are also concerned by that.

Just to give you a very obvious example, we now have the Union Jack on everything we do around the world with DFID, so you have UK aid and the flag. Can you not see, for example, that the military might use that against you and say, "Look, the UK is here—here is the flag—investing in our country"? Do you see the difficulty that Committee members and members of the public will have with this?

Lord Bates: I can see that. Explanation is a very important part of it. In the specific example of Myanmar, look at the scale and total amount of the projects that we are referring to that are taking place in Myanmar, and then look at the scale of the leadership we have shown in the international community, our response to what has happened in Rakhine State and the help to the refugees in Cox's Bazar in Bangladesh. That scale of response has been incredible. The greatest challenge that you find in doing these things is where you draw the line. What do you do and how do you deliver help in situations like South Sudan, where we do not exactly sit with and feel comfortable with the Government, but where we know there is massive human need? We have to work.

One thing that made our work more effective is that we made a big change from giving central-budget support. We used to write out very large cheques to Governments. Now, everything has to be very clearly identified as being a project, along with what the benefits are going to be, how the money is going to be spent, who the partners are who are going to be delivering it, and who the beneficiaries are. That has reduced some of the risks, but the summary of my answer is that these things are terribly difficult to square in a clearly consistent way. That would probably be a fair reflection of where we are.

Q73 **Chair:** Can I take you back, Minister, to the answer that Rachel gave about what this is governed by? You talked about a "how to" note, which I think you said was from 2014. Can I suggest there is a case—because a lot has happened since 2014—for updating that to reflect some of the concerns that have been raised today, but also to reflect the sustainable development goals? When we look at what has happened in Burma, as Chris rightly reminds us, and when we look at the impact of Brexit in terms of our trade and other relationships, surely there is a case for having, at the very least—this is a relatively modest request of you—an update of that "how to" note to reflect the world of 2018, as distinct from the one of 2014.

Lord Bates: Thank you. We will certainly take that away.

Chair: Thank you very much. Thank you, everyone.