The Chair
International Development Committee
House of Commons
London SW1A 0AA

20 June 2018

Dear Chair

Thank you for providing the opportunity for our Chairman, Graham Wrigley, and me to give oral evidence to the Committee last week. I am writing to provide clarification on three points we discussed during the session: climate change; offshore financial centres; and mobilisation.

Country diagnostics and climate change
Mr Law MP asked about country development diagnostics. The country diagnostics are a DFID led initiative. DFID is currently working on a set of updated country development diagnostics, which are interdisciplinary and consider climate change throughout.

In terms of how CDC assess and manage climate change, we believe that the private sector has a central role in mitigating and adapting to the impacts of climate change, as reflected in the 2016 Paris Climate Agreement. Climate change is one of our four key commitment areas of our new strategy (alongside women's economic empowerment, job quality and skills/leadership). We adopted a Climate Change Policy in 2014 that means we proactively assess climate change risks and opportunities in our investments. A separate Policy on Coal-fired Power Generation means we no longer invest in coal-fired power plants and we will be issuing new guidance on heavy fuel oil.

At an investment level, we are actively investing in low carbon sectors. Currently 16 per cent of our total investment commitment is directly climate related investment. We aim to scale up our efforts by aligning our capital in emerging markets with the goals of the Paris Agreement. Activity includes:

- **Utility scale renewables.** For example, we recently established a new start-up renewable energy company in South Asia, Ayana Renewable Energy, and have invested in Nubian Suns solar project in Egypt which aims to be the largest solar power installation in the world.
- **Off grid solar home systems and rooftop photovoltaic**. For example, as part of our new 2017-21 strategic framework we have developed an off-grid solar strategy. We are now invested in eight out of 10 of Africa's leading off-grid solar companies.
- **Carbon sequestration through forestry**. For example, we are invested in Miro Forestry a sustainable timber business operating in Sierra Leone and Ghana.

- **Low carbon embodied materials**. For example, we undertook a joint venture with LafargeHolcim, to create 14Trees, with the aim of producing an environmentally-friendly alternative to traditional clay-burnt bricks.

A new climate-focused innovation of our 2017-21 five-year strategic framework was the launch of our Resource Efficiency Facility in 2017. The facility aims to accelerate our impact on climate initiatives by providing finance to our investee businesses to deliver efficiency improvements in energy, water and waste, and to install captive renewable energy generation. The main objective of the facility is to help address market failures, particularly where the benefits of resource efficiency interventions are undervalued or not fully recognised by the private market. The Resource Efficiency Facility also aims to make sure our investments have the greatest development impact by improving the environmental and social performance of our portfolio companies and accelerating the uptake of climate mitigation and adaptation initiatives.

CDC's use of offshore financial centres

Mr Burden MP asked what changes have been introduced since 2012 and whether there had been a change in the proportion of our investments using an offshore financial centre (OFC). Maximising tax revenues for developing countries is central to impact we look to achieve. Tax avoidance and evasion denies essential revenues to cash strapped public services in developing countries. Our policy is therefore very clear:

- Our preference is to invest directly into our target countries. Where an intermediate jurisdiction is necessary in mobilising capital, we insist on jurisdictions with full exchange of tax information between revenue authorities.
- We will not invest in any business that evades tax. Nor do we condone the structures that are tax abusive.
- CDC's full tax policy is available here.

In percentage terms the trend in our use of OFCs is a downwards. In the five years between 2008-12 we made 73 investments of which 85 per cent used an OFC. In the five years from 2013-17 (under our new strategy) we made 137 investments of which 41 per cent of used an OFC – in 2017 it was 36 per cent (15 investments). This reflects the stated intention in our tax policy to invest directly into our target countries and our wider range of investment mechanisms provided through our expanded mandate since 2012.

We recognise we are on a journey and there remain several investments for which we do use an OFC – primarily when we mobilise capital from other investors in different jurisdictions and a vehicle in a neutral jurisdiction, through which all investors' capital can be pooled, is required. The dilemma faced when assessing how capital is routed to our target countries is this: we could stop pooling capital through OFCs which would have the dual effect of (i) reducing the amount of investment in the least developed counties[1]

[1] ODI, Why do Development Finance Institutions use offshore financial centres? October 2017 https://www.odi.org/publications/10967-why-do-development-finance-institutions-use-offshore-financial-centres

and (ii) placing tax payers' money at risk through exposing it to the legal oversight present in countries such as the Democratic Republic of Congo or Afghanistan. These are not acceptable outcomes for us. Instead, we have committed to supporting the international system as it raises standards for all countries, including:

- Since 2014, where necessary we will only use OFCs that are compliant with international tax information exchange and transparency standards, as monitored by the Global Forum on Transparency and Exchange of Tax information. There are no exceptions.
- We publish the overall tax contribution of the portfolio ($4.1 billion in 2016); the principal countries in which the investee company pays taxes; the place of incorporation; and the legal domicile of the business or fund.
- Since 2017, we have committed to updating our tax policy on an annual basis to allow us to adopt the latest international practices.
- In 2018, we have been leading work with other European Development Finance Institutions to develop a joint set of tax principles. The principles here were published in May 2018.

Mobilisation

Mr Lewis MP asked about how much additional investment CDC's investments mobilise in developing countries and how much of that is private capital, as opposed to that of other DFIs. Mobilising private capital alongside our investments, and finding new ways to partner with investors to increase our own impact is a key strategic focus for CDC over the next five years, as we look to support the amount of capital needed to achieve the SDGs.

There are several international institutions (most notably the OECD & Multilateral Development Banks (MDB)) that have developed mobilisation methodologies. The below table shows our mobilisation figures since 2015 against these two methodologies. The below methodologies capture private flows mobilised across all of CDC's investments. Capital mobilised from other development finance institutions are not included.

Figures in US$m	CDC Commitments	MDB methodology	OECD methodology
2015	1,099	1,562	1,497
2016	1,527	1,032	1,107

In addition to the above methodology, each year for the past ten years we have reported the amount of private capital mobilised by just our funds business (which is our primarily tool for mobilising capital). The figures since 2012 are in the below table:

Figures in US$m	CDC commitments to funds	Private capital mobilised
2012	256	265
2013	612	982
2014	136	808
2015	381	1,505
2016	356	544
Total	**1,741**	**4,104**

Separately, it is worth highlighting that since the inception of our Trade & Supply Chain Finance programme in 2015, US$ 1.18 billion has been insured by the programme which translates to CDC helping facilitate US$4.15 billion in trade across Sub Saharan Africa and South Asia.

Thank you again for the opportunity to present evidence. If there are any other points that the Committee wish to clarify then please do let me know and we'd be very happy to assist.

Yours sincerely

Nick O'Donohoe
Chief Executive

CC Graham Wrigley, Chair