



CDC statement in response to the Public Accounts Committee report.

30 April 2009

CDC plays a very specific role within the UK Government's overall poverty reduction programme. CDC's sole purpose is to support promising businesses in poor countries by investing much needed capital to help them grow, employ people and stimulate vital economic growth. Economic growth is widely recognised as the only long-term, sustainable way out of poverty. Without CDC these businesses would not have the financial backing they need to succeed. The Department for International Development (DFID) has a number of tools that it uses to tackle poverty including support for the private sector in poor countries. This is where CDC fits in.

We welcome the Public Accounts Committee's (PAC) recognition that CDC's performance has been outstanding since it was restructured in 2004 and that it has outperformed the market while investing in poor countries.

CDC's role in reducing poverty by helping promising businesses in the developing world is a serious subject. It is disappointing, therefore, that some of the Chairman's comments and parts of the report's recommendations are based on unsubstantiated opinion and demonstrate a lack of understanding of the way that CDC operates. It is also regrettable that some of the report's conclusions ignore key National Audit Office findings on CDC, as well as information provided by CDC during and after the PAC hearing in December 2008. For example, we announced last year a new set of criteria to determine which countries we invest in because we want to ensure that the UK taxpayers' money goes to the poorest economies where investment is most needed. The report's conclusions and Mr Leigh's comments make no mention of this.

The PAC claims that there is limited evidence of CDC's impact on poverty reduction – we simply do not agree with their assessment. Our new investment policy means that we channel much needed capital into the world's poorest countries, with a particular focus on sub-Saharan Africa and South Asia. We work hard to measure the effect of our investment, gathering clear data on jobs created, taxes paid and other important indicators. In July this year we will publish an extensive assessment of CDC's impact on poverty reduction. Of course, there is always more to be done in this important area and CDC will continue to put measurement and accountability at the heart of what we do.

Reducing poverty is at the core of what CDC does and, more than any other development finance institution, CDC is focused on the world's poorest countries. The lesson from the last 50 years is that economic growth is the most powerful way of pulling people out of poverty. There is a clear and undisputed link between private sector investment, the economic growth that results and falling poverty rates. This is where CDC is making a lasting contribution.

Last year alone CDC invested a record amount of £436 million and, since its reorganisation in 2004, has surpassed all its targets and invested £1.5 billion in private sector companies in Africa, Asia and Latin America. During the same period it has generated £2.5 billion for reinvestment in poor countries and has helped attract over £2.3 billion of capital from other investors - all of this without receiving a penny of taxpayer's money since the mid-1990s.

CDC's success is due to the skills of the people who work for CDC. The organisation's impact owes much to being able to employ and retain top-calibre investment professionals who are motivated to invest in the poorer countries usually neglected by international private investors. The framework for paying CDC employees was set by DFID following independent advice and is intended to encourage and incentivise success. It has done exactly this. Pay is directly linked to performance across a set of measures. When performance goes down, so does pay. That is the case for 2008 where the total pay package of the CEO fell by 41% to £572,000. The National Audit Office in their report of December 2008 did not criticise the level of pay at CDC and stated that it was "below median pay levels for the sector".

All the economic evidence points to the fact that sustainable poverty reduction only results from economic growth and that successful and profitable businesses are the lifeblood of growth in poor countries. Without economic growth the developing world will never reduce poverty and stop its reliance on aid.

The PAC's criticism of the level of cash balances is also misguided. All of the £1.4 billion currently held in cash all is committed to fund managers and is being drawn down for investment. Over the past year, due to the global downturn, many investors have been unable to honour their commitments. CDC is not in that position and does not intend to jeopardise its future success and taxpayer's money by following the path that the PAC seem to suggest. We are able to continue investing at a time when businesses in poorer countries need us most.