International Development Committee

Inquiry into the Department for International Development's Annual Report, DFID in 2009-10

Memorandum

from

The Corner House and Dotun Oloko

INTRODUCTION

1. The Corner House is a not-for-profit research and advocacy group, focusing on human rights, environment and development.

2. Over the past ten years, The Corner House has closely monitored the poverty-related impacts of overseas projects that are operated or financed by UK multinationals, UK government agencies, commercial banks, investment funds and the "shadow banking" sector.[1] A particular focus of our work over the past year has been the support given to private equity funds by the CDC Group and other bilateral and multilateral institutions. In particular, The Corner House has worked closely with Dotun Oloko, a Nigerian anti-corruption campaigner, to draw attention to concerns over alleged corruption in a number of CDC-backed investments in Nigeria.

3. The Corner House welcomes the International Development Committee's current inquiry and is grateful for the opportunity to comment on the issues that the Committee has chosen to examine. This submission is jointly submitted by The Corner House and Mr Oloko. It focuses on the third area where the Committee has sought evidence: namely, the work of the CDC.

4. The Corner House and Mr Oloko would seek to draw the Committee's attention to the following concerns:
    - DfID's failure to arrest the gradual erosion of CDC's mixed strategy of investing through equity, loans and ancillary services in favour of an exclusive reliance on investment through fund managers as a "fund of funds";

- DfID's reliance on discredited "trickle down" theory to assess the poverty alleviation and development impacts of CDC's investments;
- DfID's failure to correct CDC's insistence on equating return on investment with development impact without any acknowledged or standardised method of qualitatively assessing environmental and social performance;
- DfID's reliance on unverified reports and financial data supplied by CDC and its fund managers to justify the claimed development benefits of its continued investment in CDC;
- DfID's failure to require CDC to adopt practices and procedures, backed by adequate resources, to monitor the activities of its fund managers and to ensure that they adhere to CDC's Investment Code;
- DfID's failure independently to consider the concerns and reports of non-compliance by CDC and its fund managers brought by third parties and its practice of referring such concerns to CDC for investigation;
- DfID's failure to require CDC to assess performance beyond the fund level by independently assessing each investee company or project;
- DfID's failure to require CDC to improve its performance in supporting small and medium sized enterprises (SMEs) with strong linkages to meeting the needs of poorer people, despite SMEs being widely acknowledged engines of growth in any economy and CDC's support of SMEs falling far below the standards of comparable Development Finance Institutions (DFIs).

THE CDC GROUP

5. The CDC Group (formerly the Commonwealth Development Corporation) is Britain's Development Finance Institution. The term applies to a variety of institutions, both bilateral[2] and multilateral,[3] whose purpose is "to stimulate private sector development in economies underserved by commercial financial institutions"[4] and to play "a catalytic role by facilitating additional investment flows into emerging markets",[5] particularly where commercial investors perceive the risks to be too high without some form of official guarantee.

6. Although CDC is a public limited company, it is wholly owned by the UK's Department for International Development (DfID).[6] Created in 1948 to promote private sector development in the UK's former colonies,[7] it was substantially restructured in 2004: instead of investing directly in companies, it now primarily does so indirectly,[8] providing capital to "private equity funds

that in turn invest in companies in the poor countries of the world".[9]

7. DfID exercises minimal oversight of CDC – just 1.5 staff were responsible in 2009 for overseeing not only CDC but DfID's other private sector funds as well[10] – and adopts a "hands off" approach to investment decisions.

8. At the end of 2009, CDC had a net value of £2.5billion.[11] It was invested in 134 funds managed by 65 different fund managers, themselves investing in 794 companies in 71 countries.[12]

9. Unlike other official development agencies, which have an exclusive development mandate, DFIs are primarily focused on the profitability of their investments.[13] In the case of CDC, its investments have resulted in an average annual growth in the Group's assets of 24 per cent – six times the rate of return required of public investments by the Treasury.[14] In some years (between 2005-2007), CDC earned between 42 and 57 per cent on its investments.[15] The Group has regularly outperformed the MSCI Emerging Markets Index (a measure of the performance of stock market-listed equities in global emerging markets) by 6 per cent.[16] As such, its returns compare favourably with investments by speculative commercial firms such as hedge funds, private equity and other elements of the shadow banking system. The financial success of its investments has earned millions in bonuses for its fund managers.

10. Currently, 43 per cent of CDC's portfolio is invested in Asia (mainly China and India) and 45 per cent in sub-Saharan Africa.[17] CDC's policy is that more than 75 per cent of new investments will be in low-income countries and 50 per cent in sub-Saharan Africa.[18] Investments in China, a country that has considerable access to investment, will in future be restricted to those in small- and medium-sized enterprises,[19] sectors that currently comprise just 4 per cent of CDC's portfolio.[20]

11. Nonetheless, CDC's portfolio remains heavily concentrated in just four low-income countries – China, India, Nigeria and South Africa.[21] Whilst it is undoubtedly true that the majority of the world's poorest people live in these countries, it is also the case that private sector investors are already heavily invested in them, with China a particular focus of investment.[22] India, for

example, received US$17.14 billion in private equity investments in 2007, [23] which typically earn their investors returns of 25-40 per cent.[24] Moreover, in the wake of the current financial crisis, private equity firms are increasingly looking to invest in India,[25] with big names such as Blackstone and Carlyle already invested in the country or raising funds to do so.[26] South Africa, too, is attracting increasing private equity investment[27] and investors are also looking to other African countries. According to Preqin, a leading private equity research service, Africa is cited as a particular geographical investment preference by some 172 fund managers worldwide.[28] Preqin concludes:

> "While the African private equity market is yet to achieve landmark status on the global alternatives map, evidence suggests that the sector is expanding and new funds are rapidly increasing in both size and reach." [29]

12. Internally, China and India all have considerable private capital available for investment. Indeed, the Asia-Pacific region as a whole now has more High Net Worth Individuals (HNWI) than Europe, collectively holding $9.7 trillion in 2009 as against Europe's $9.5 trillion. The number of NHWIs in India rose by 50 per cent in the same year, whilst that in China doubled.[30]

13. **Whilst CDC states that it invests more in countries with low incomes than any other DFI, it would be therefore equally accurate (and perhaps more telling) to say that it invests primarily in countries with the largest concentrations of the world's millionaires.**

FUND OF FUNDS APPROACH

14. CDC's practice of investing solely through fund managers – it now describes itself as a "fund of funds"[31] – is unique within the universe of bilateral Development Finance Institutions (DFIs).[32] Other DFIs employ a range of strategies and tools for encouraging private sector development, including direct equity investment and loans.[33] Although the House of Commons Public Accounts Committee noted in 2009 that DfID had recommended that CDC employ a wider range of financial instruments and strategies in order to service low income countries that are not attracting private sector

investment,[34] it has yet to do so.

15. Although highly profitable for both CDC and the funds in which it invests, CDC's "fund of funds" approach distances its investments from public scrutiny and parliamentary oversight. Many of the investments remain undisclosed.[35] It also makes reporting on the poverty reduction and development impacts of those investments more difficult (*see below*, paras 33-41). CDC relies on fund managers to self-certify their compliance with CDC's Investment Code, which sets outs CDC's environmental, social and ethical standards. Perhaps predictably, the majority of funds are rated "satisfactory" or better, despite allegations being raised that a number of CDC-backed companies have been involved in serious human rights or corruption. Such cases have raised considerable concern over the quality of the due diligence exercised by both CDC and some of the funds in which it invests (*see* paras 43-51).

16. Moreover, fund managers themselves have questioned the compatibility of the "fund of funds" approach with DfID's development objectives, particularly relieving poverty (*see below*, paras 18-31). In addition, a 2010 survey by Preqin reports that many fund managers (40 per cent of those interviewed) are skeptical of the viability of the fund of funds approach for financing infrastructure development, a key area of investment in terms of poverty reduction. Instead, they believe that direct investment and other forms of finance should be employed.[36]

17. **We support the Public Accounts Committee's recommendation that CDC should employ greater use of other investment strategies, including loans and direct investments, rather than simply investing through funds of funds. In our view, the fund of funds approach should be reconsidered in its entirety.**

REDUCING POVERTY?

18. By law, DfID is permitted to invest in funds only where the Secretary of State is "satisfied that do so is likely to contribute to a reduction in poverty".[37] CDC describes itself as being "a core part" of DfID's "strategy to reduce poverty".[38]

19. It is thus of considerable concern that the 2009 inquiry into CDC by the House of Commons Public Accounts Committee concluded that there is "limited evidence of CDC's effects on poverty reduction" [39] and that the few evaluations undertaken by CDC on its development impact[40] "lacked depth, with little performance data apart from financial data."[41]

20. The National Audit Office, which conducted an inquiry in 2008 into DfID's oversight of CDC, has similarly criticised the evidential basis for claims that CDC reduces poverty.[42] Moreover, it reports that fund managers themselves are not convinced of the development gains of CDC's investment model:

> "Fund managers we interviewed questioned the ability of a 'funds of funds' business to secure the breadth of development benefits that DfID hopes CDC can deliver. They doubted whether higher risk and lower return investments were compatible with a commercial business model."[43]

21. DfID and CDC have responded to such criticisms by arguing that the financial profits made by CDC's investments are evidence of CDC's contribution to reducing poverty. As Nemat Safik, the Department's permanent secretary, told the 2009 inquiry into CDC by the House of Commons Public Accounts Committee:

> "We know quite clearly that exceptionally good financial performance is associated with improvements and development impact. Intuitively firms that are profitable, that pay taxes, that create jobs are better for development than firms that do not."[44]

22. In support of that claim, DfID cites a report by the World Bank's International Finance Corporation (IDC),[45] which, according to DfID, showed that "97% of projects that had high levels of financial return also had high levels of development." [46]

23. In fact, the IFC report came to a very different conclusion. The IFC found a relatively weak correlation between high profits and wider positive development outcomes. Where the report found the impacts were most pronounced was in "improvements in private sector development", such as encouraging new entrants into the market or changes in the law favourable to the private sector.[47]

24. Moreover, the IFC report did not specifically examine the impacts on poverty reduction and did not include such impacts as part of the criteria for a

successful development outcome.[48] Instead, it required only that a successful project "generate benefits to society above and beyond those to its financiers".[49]

25. Indeed the key issue of *who* benefits from the specific investments derived from CDC's (and IFC's) overall investments – critical to any reasonable assessment of compliance with DfID's legal duty to relieve poverty – has never, to our knowledge, been subjected to rigorous case-by-case analysis. Instead DfID and CDC rely on the now widely-discredited "trickle-down" theory to development[50] to argue that what's good for investors must be good for poorer people.

26. Whilst investment is certainly needed to relieve poverty, it is simplistic – and irrational – to assume that *any* investment, even when conditioned on environmental and social safeguards, automatically translates into positive impacts on poverty reduction, simply because that investment generates growth.

27. On the contrary, many CDC investments have benefited richer people whilst excluding poorer citizens, *widening, rather than reducing, the gap between rich and poor*. The following examples are illustrative.

a) Globeleq

CDC set up Globeleq, a power generation company operating throughout the developing world, in 2002; its investment is now managed through private equity firm Actis (established in 2004 to manage those assets in which CDC had invested prior to its 2004 restructuring).[51] Legal ownership of Globeleq was transferred in 2009 from CDC to the Actis Infrastructure Fund, a fund managed by Actis. According to Globeleq, "CDC continues to be a key stakeholder in Globeleq's business as a material investor in Actis Infrastructure Fund".[52]

Since 2002, the company has bought out a number of energy companies in the Global South from which the private sector was seeking to withdraw, because they were unprofitable. As a result, according to UK development NGO War on Want,[53] CDC's investments have over the years transferred more than US$1 billion of UK aid money to some of the richest companies in the world, such as AES and El Paso (ranked 158 and 443 in CNN's Fortune 500 ranking in 2009 of the largest corporations in the United States).

Far from increasing the access of poorer people to electricity, companies in which Globeleq has had a stake have sharply increased the tariffs charged to consumers, often putting electricity beyond the reach of the poor.[54]

Following Globaleq's 2005 investment in Umeme, a Ugandan power distributor,[55] the company is reported to have increased prices by 24 per cent and then again by 37 per cent, leading to a court challenge by the Uganda Electricity Users Association (UEUA).[56] Many poorer Ugandans have been forced to steal electricity from the grid because of the high prices; Umeme's manager is reported to have called for their execution.[57] In 2009, a government-appointed investigation into the high cost of electricity in Uganda (the highest in the East African region and the highest in the world after Sweden)[58] accused Umeme of defrauding Uganda of Shs 452 billion over the previous four years by over-declaring losses, for which the Government was contractually bound to compensate Umeme.[59] The investigation followed what the Ugandan Energy Minister described as "a long time public outcry on electricity tariff, which is negatively affecting not only domestic consumers but also the manufacturing sector and the economy generally."[60] Although tariffs have been reduced following the government-appointed investigation, the continuing high cost of power is reported to be undermining the competitiveness of Uganda's industries.[61]

Although Umeme is no longer listed by Globeleq as one of its portfiolio companies, CDC remains involved through the Actis Infrastructure Fund 2.[62] There is no mention in either CDC's *2010 Development Impact Report* or on Actis' website of the Ugandan government's investigation, its findings or the adverse impacts on consumers and businesses alike of the high prices charged by Umeme.

In Tanzania, Globeleq's portfolio company, Songas, is reported to have been dogged by technical failures[63] and is accused of demanding "indefensible" hikes in the prices it charges for gas transportation.[64]

b) Accra Shopping Mall

CDC is invested in Accra's shopping Mall project through Actis,[65] which described the project as "Ghana's first and only A-grade shopping mall and leisure center". [66] Retailers who rent space at the Mall include major banks, pharmacies, large department stores and a cinema. The Mall's website records that the project was developed to "serve the needs of the middle and upper income groups who lived [in the surrounding area], but who had to go all the way to downtown Accra, around Makola, the Central Post Office and also Osu, to do their shopping."[67]

Poorer people feature in CDC's account of the development only as "hand-me-down" beneficiaries of the project. It is claimed, for example, that developments such as the Mall encourage stallholders to set up in their vicinity[68] and that the project generated an estimated $4.3 million in sales tax in 2008. It is also claimed that the project brought development benefits by making available goods "which previously were either unavailable locally or prohibitively expensive." [69]

No analysis is presented of the tax that has been "forgone" as a result of the five-year tax holiday enjoyed by the project, or of the impacts on trade in downtown Accra, or of the likely impacts on Ghana's balance of payments of the increase in imported goods sold in the Mall. Claims that 1,000 jobs have been generated by the project are also presented without any analysis of how many of the jobs are permanent, how many casual, whether those employed were already in employment (and simply moved their businesses into the mall), whether there has been discrimination in employment opportunities between women and men (a problem reported in other shopping mall developments)[70] and so on. Although CDC states that the Accra project is illustrative of the "heavy informal side" to investments in the consumer goods sector (with claimed broader economic impacts), it does not provide any further information or evidence.[71]

Independent academic analysis of the Accra Mall project concludes that it "remains a luxury niche, serving the needs of a minor section of the city's population".[72]

28. Macroeconomic claims about the number of people employed as a result of CDC's investments are similarly unconvincing in the absence of any data supplied on the numbers of jobs lost due to the restructuring of CDC-backed companies; the types of jobs created (permanent or temporary); the sustainability of the employment, particularly where the jobs are in the export sector or depend on wider global employment; the fate of employees following disinvestments by CDC-backed funds; or the number of jobs that might have been created had the funds invested by CDC been channelled directly into programmes targeted at relieving poverty, particularly through cooperatives (which are often legally constituted as private sector companies) and SMEs that meet the needs of poorer people.

29. Equally absent from CDC's claims as to the positive development benefits of its macroeconomic impacts is any analysis of its contribution to negative macroeconomic impacts. CDC's most recent *Development Review*, for example, reports that Nigeria's banking system underwent a severe shock in 2009, requiring a number of banks to be bailed out at a cost to the Nigerian taxpayer of $5 billion[73] (more than the entire $3 billion reportedly paid in tax by CDC investee companies).[74] CDC records that the collapse was provoked in large part by "favourable loans being offered to associates of many of the banks' executives"[75] and that "an audit by Nigeria's central bank revealed risk management and corporate governance shortcomings in two Nigerian banks in

CDC's portfolio".[76] It does not name the banks (Intercontinental and Oceanic) nor does it report that the private equity funds in which CDC had invested had representation on the boards of these banks[77,78] at the time when the suspect loans were made; that the banks had both been cited by Nigeria's Economic and Financial Crimes Commission for their alleged involvement in money laundering; or that DfID, CDC and the fund managers had all been warned of allegations of corruption relating to the banks' loans by Dotun Oloko prior to the banks' collapse but had taken no action. (For further details, *see* Annex 1.)

30. Although CDC records that the Nigerian banking crisis "cast a shadow over the entire sector of the Nigerian economy"[79] (more accurately, it nearly brought the country's economy to the brink of collapse), it offers no analysis of the impacts of the collapse on the *creation* of poverty, both directly and indirectly, or of the poverty-*creating* impacts of the corruption that allegedly underlay the defaults. Yet the Nigerian authorities allege that millions of pounds may have been laundered through the banks, severely impacting Nigeria's development. It is also our understanding that employees at Intercontinental Bank have not been paid for many months as a result of the bank's collapse and that some have been laid off.

31. Neither DfID nor CDC appear to pay attention to the impacts of CDC's investments on relative poverty within the countries in which CDC invests (and certainly have published no analysis of such impacts), or to the risks posed by the concentration of wealth that has resulted from current investment policies and the widening gap between the middle classes and poorer people in countries such as India.

32. **Although financial performance is certainly a factor to be taken into account when evaluating the impacts of CDC's investments, it provides a wholly inadequate guide to their impacts on poverty alleviation. CDC should require that fund managers report on intended poverty alleviation outcomes for each investment prior to investing and that they should benchmark progress in reaching those outcomes annually. CDC should also establish a set of poverty impact indicators that record the outcomes of specific investments for identified groups, against which fund managers should report, again annually. The indicators should capture**

both the positive and negative macro and micro impacts on poverty alleviation for poorer people.

INADEQUATE REPORTING

33. Adequate reporting by fund managers on the outcomes of their investments is essential if the Secretary of State is to be in a position to make an informed judgment as to whether or not CDC is contributing to the reduction of poverty.

34. To report properly on poverty reduction and development impacts, CDC and/or its fund managers need to collect and assess data both *before* and *during* the lifetime of the investment in order to establish the benchmarks against which performance can be measured and the methodology for the assessment. But CDC has not allocated the staff or structured itself to carry out such assessments and has demonstrated a reluctance to commit the resources required.

35. Commenting on CDC's evaluations of its development impacts, the National Audit Office notes that:

- unlike other DFIs, CDC "has not specified a set of development impact indicators";[80]
- it does not evaluate the development impacts of its investments in respect of specific companies, only the impacts at the fund level;[81]
- its evaluations rely on reports from fund managers,[82] which are not independently verified as a matter of course;[83]
- the reports supplied to CDC on development impacts are "highly selective",[84] "lack a clear evidence base" [85] and contain less information than was reported prior to CDC's restructuring,[86] whilst those on compliance with the CDC's environmental and social guidelines are described as "anecdotal";[87] and
- the fund managers' bonuses are tied in part to positive development outcomes,[88] creating a clear conflict of interest and resulting moral

hazard by providing an incentive for fund managers to dress up their reports for financial gain.

36. To date, few evaluations of development impacts have been completed by fund managers or CDC (just 32 out of 134 funds had been reviewed by 2009)[89] and only seven of the reviews were carried out independently.[90] No explanation is given as to the basis on which the funds were selected, nor are the evaluated funds named.

37. Although CDC has introduced changes to its reporting practices since the 2008 National Audit Office evaluation, these have not resulted in improved data on poverty reduction. CDC admits, for example, that the annual monitoring reports supplied by fund managers still do not provide the information necessary to assess the extent to which CDC's capital contributed to poverty alleviation.[91] CDC claims that an assessment of poverty reduction is possible only when it undertakes a fund evaluation, typically after five years of the fund's life and at its closure.[92] In effect, the Secretary of State is deprived of any fund-specific, independent evidential basis for assessing whether DfID's investments comply with its legal duty to relieve poverty until after millions of pounds have been invested – by which time it may be too late to correct any deficiencies reported. Contractual obligations may also make it difficult for CDC to withdraw from a fund even where it is found to be failing to reduce poverty.

38. CDC still does not include poverty reduction as one of the criteria against which it assesses the funds in which it invests. Instead it evaluates against a fund's financial, economic, environmental and social performance and its contribution to private sector development.[93] Whilst these performance parameters may provide insights into a fund's impacts on poverty reduction, they cannot substitute for a focused assessment of such impacts. On the contrary, as noted above, they may obscure negative impacts. In addition, by restricting the evaluation to the fund rather than the companies in which the fund invests, the evaluation fails to capture the direct impacts on the ground of specific investments.

39. CDC uses the aggregate rating of financial performance, economic

performance, environmental, social and governance (ESG) performance and private sector development to make up "an overall rating for the development outcome of each fund investment".[94] As a result, funds whose portfolio includes companies that may have performed extremely badly in terms of environmental and social performance could still achieve an excellent rating if the companies have performed well financially. This is not only plausible but also often the case. Examples that bear further investigation are Emerging Capital Partners (ECP)'s investment through its Africa Fund II in Anvil Mining Ltd, which has accused of involvement in serious human rights violations and war crimes in the Democratic Republic of Congo,[95] and ECP's and Ethos's investment in Oceanic and Intercontinental banks in Nigeria; both banks are reportedly implicated in alleged large scale corruption, money-laundering and other financial crimes while posting high financial returns (*see* Annex 1). We note that, in sharp contrast to CDC, Germany's DEG requires development assessments to include an in-depth analysis of practices at portfolio company level, [96] an approach that has been adopted by 15 other DFIs.

40. In 2009, CDC began to use "Socio-Economic Impact Assessment (SEIA) techniques" to evaluate the wider development impacts of its investments. As a result, it now includes any benefit that might conceivably be held to have resulted from an investment as part of the investment's development impact. As a result, the benefits claimed for projects are inflated: in the case of Ghana's Accra Mall, for example, the project is reported to be generating $4.3 million in taxes even though those taxes are not in fact paid by the investee company, which has a five year tax holiday.[97] Similarly, vendors who set up stalls near to projects might well be included in the figures for employment generated, even though the vendors might simply have moved their existing stalls so as to be closer to the projects.[98]

41. Without adopting a similar approach to include adverse impacts, this reporting approach has much in common with self-certified mortgages. An investment, such as CDC's in Nigeria's collapsed banks, could even be reported in a way to suggest positive development outcomes had been generated – for instance, the numbers of police officers now employed in investigating alleged

corruption by the banks, the jobs created in tracking down allegedly looted assets, the employment generated by bank employees who have had to seek alternative jobs, and so on.

42. DfID should radically overhaul CDC's reporting requirements. First, CDC's reporting should be at the level of investee companies, not solely at the fund level. Second, poverty reduction criteria should be introduced and prioritised. Third, all evaluations should be conducted independently of both fund managers and CDC. And, fourth, there should be a requirement to report on any negative outcomes.

STANDARDS AND DUE DILIGENCE

43. Since 2009, CDC-backed fund managers have been expected to invest only in accordance with CDC's Investment Code,[99] which has been approved by DfID. The Code requires, *inter alia*, that all businesses in which CDC's capital is invested comply with all applicable laws and that projects comply with international environmental and social standards.[100] This requirement is written into the contracts that CDC enters with fund managers.[101] The aim is "to ensure that portfolio companies improve upon their business practices from the environmental, social and governance perspectives during their investment period."[102] Its new Code that came into effect at the beginning of 2009 states that it is "compatible with" the World Bank's IFC Performance Standards, which cover a range of environmental and social safeguard policies, including labour policies.

44. Whilst the new policy is to be welcomed, we note that the IFC standards do not adequately reflect international human rights obligations[103] and that CDC's own standards are significantly less detailed than those of the IFC, for example, in relation to labour standards.[104]

45. We also note that, unlike the US Overseas Private Investment Corporation (OPIC), which recently introduced new investment rules, CDC does not:

- require fund managers to obtain CDC's prior written consent to each sub-project on the basis of potential environmental and social risks;
- itself review risks prior to fund managers investing;
- require that funded companies comply with the Extractive Industries Transparency Initiative (EITI) and that the "host country must have committed to EITI principles and criteria" or be taking steps to establish functioning EITI systems;[105] and
- does not require all projects to meet host government obligations under international law.

46. A Code, however, is only as good as its enforcement. Here, there are mounting concerns over the actual implementation of CDC's safeguard policies by fund managers and both CDC's and DfID's oversight of compliance.

47. A case in point, set out in further detail in Annex 1, is the due diligence undertaken by CDC in respect of its investments in ECP and Ethos, which have in turn made investments in several Nigerian companies (Notore, Intercontinental Bank, Oceanic Bank, OandO and Celtel) reported to be "fronts"[106] for the alleged laundering of money said to have been obtained corruptly by the former Governor of Nigeria's oil rich Delta State, James Ibori. Nigeria's Economic and Financial Crimes Commission (EFCC) and law enforcement agencies in the UK have alleged links between these ECP- or Ethos-backed companies and Ibori and/or his associates. Nonetheless, ECP and Ethos continued to invest in the companies, and, in some cases, even increased their investments.

48. As a former governor, Ibori is a "Political Exposed Person".[107] International anti-money laundering laws require any association between Ibori and investee companies to be subject to enhanced due diligence.

49. Even cursory due diligence would have revealed many legal documents and media reports going back over the past 19 years alleging that:
    - Ibori had a criminal conviction in the UK;[108]
    - he had been subject to a forfeiture order in the USA;[109]

- he had been arraigned by the Economic and Financial Crimes Commission (EFCC) in Nigeria in December 2007 on 170 counts of money laundering totalling over $100 million belonging to Delta State[110] (although subsequently acquitted on a technicality);
- he was the subject of a 2007 UK court-ordered freezing of his traceable assets outside of Nigeria;[111] and
- the Metropolitan Police is currently seeking his extradition from Dubai.[112]

50. The extent of due diligence on Ibori undertaken by ECP, Ethos and CDC is unknown. It is known, however, that both funds invested in the allegedly suspect companies and that, in one case, investments were actually increased, despite attention being drawn to the alleged corruption. No action was taken to withdraw from the investee companies or to raise the concerns with the UK authorities.

51. A Memorandum detailing the concerns, signed by eight non-governmental organisations, was sent to the Secretary of State for International Development on 29 June 2010.[113] We are pleased to report that the Secretary of State has promised a thorough investigation.

52. We recommend that CDC adopt stronger standards and oversight measures to ensure that its investments are subject to rigorous due diligence. We do not believe that CDC's current "hands off" approach to investment is compatible with the quality of vetting that the publics in the UK and the countries in which CDC invests have a right to expect of a UK publicly-owned and supported company. We would propose that CDC therefore move away from its "fund of funds" policy and adopt more direct engagement with the companies in which it invests.

TAX HAVENS

53. CDC reports that, as of 12 September 2010, 45 per cent of its funds are domiciled in the tax haven of Mauritius.[114]

54. Concerns have been raised that the use of tax havens by private equity funds leads to developing countries being deprived of money that could otherwise be used for development.[115] We share these concerns and reject DfID's claim that the use of tax havens is justified as a way of avoiding double taxation.[116] Other mechanisms are available to do so.

55. We recommend that DfID permit CDC to invest only in companies and funds that do not make use of tax havens and secrecy jurisdictions.

CONCLUSION

56. We believe that CDC is not fit for purpose as a development finance institution because:

    - its impacts on reducing poverty (a legally-binding requirement for DfID) are minimal and largely unproven;
    - its monitoring and oversight of the private equity funds through which it invests is rudimentary and relies too heavily on self-certification by fund managers who have a financial interest in reporting positively;
    - its aggregated approach to evaluating the success of projects obscures major failures and encourages investments that yield high returns, even at the expense of poorer people's livelihoods, if not whole economies (as in some of CDC's investments in Nigeria's banking system).

57. We recommend that DfID requires CDC:
    - **To move away from its "fund of funds" approach to investing and adopts instead a strategy of direct investments using a wide range of financial instruments, including loans and advisory services.**
    - **To establish a set of poverty impact indicators that record the outcomes of specific investments for identified groups of people, against which fund managers should report annually. The indicators should capture the positive and negative macro and micro impacts on poverty alleviation for poorer people.**
    - **To carry out independent, project-specific evaluations of the poverty reduction impacts of all companies in which CDC is invested.**

- **To strengthen its Investment Code by requiring adherence to international human rights obligations, including labour standards.**
- **To require adherence to its Investment Code by any co-investors in partnered investments**
- **To invest only in funds and companies that do not make use of tax havens**
- **To refocus its investments on Small and Medium sized enterprises that have strong linkages to poorer people and which are focused on meeting their needs.**

The Corner House

Dotun Oloko

13 September 2010

---

1 For a discussion of the role of the "shadow banking system" in financing projects with adverse human rights environmental impacts, *see*: Hildyard, N., "A (Crumbling) Wall of Money: Financial bricolage, derivatives and power", The Corner House, October 2008, http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/39wallmoney.pdf.

2 Many countries have Development Finance Institutions including: AWS – Austria, BIO – Belgium, COFIDES – Spain, DEG – Germany, FINNFUND – Finland, FMO – The Netherlands, IFU – Denmark, NORFUND – Norway, OeEB – Austria, PROPARCO – France, SBI-BMI – Belgium, Sifem – Switzerland, SIMEST – Italy, SOFID – Portugal, SWEDFUND – Sweden, OPIC – USA.

See:
CDC Group Plc, *Development Review 2009*, p.75, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

3 Multilateral institutions that have a development finance arm include: the International Finance Corporation (IFC – part of the World Bank Group), the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB).

4 CDC Group Plc, *Development Review 2009*, p.6, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf

5 CDC Group Plc, *Development Review 2009*, p.6, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf

6 *See*:
CDC Group Plc, "Statement from Chief Executive", *Growth for Development, Development Report 2008*, p. 2, http://www.cdcgroup.com/uploads/developmentreport2009.pdf

National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group Plc", p.4, http://www.nao.org.uk/idoc.ashx?docId=C6A8AEDD-2C9E-438F-8D48-7979C341AA62&version=-1

According to the National Audit Office: "The Department for International Development (DFID) sets the overall framework for CDC's investment policy, but does not interfere in individual investment decisions."

7 CDC Group Plc, *Growth for Development, Development Report 2008*, p.13, http://www.cdcgroup.com/uploads/developmentreport2009.pdf

8 CDC still retains ownership of the assets built up in the companies in which it had invested directly. But its investments in such companies are now managed by two independent private equity fund managers, Aureos and Actis, created in 2001 and 2004 respectively. Actis focuses on investment in larger companies, Aureos on small and medium sized enterprises. CDC pays Actis and Aureos "fees and a share of profits for managing investee companies on CDC's behalf."

See:
CDC Group Plc, *Growth for Development, Development Report* 2008, p.15, http://www.cdcgroup.com/uploads/developmentreport2009.pdf.

9 CDC Group Plc, *Growth for Development, Development Report 2008*, p.15, http://www.cdcgroup.com/uploads/developmentreport2009.pdf

10 House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", p.10, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

11 CDC Group Plc, "Our Business", *Financial Review 2009*, p.5, http://online.hemscottir.com/ir/cdc/fr_2009/download/pdf/Our_Business.pdf

12 CDC Group Plc, *Development Review 2009*, p.2, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

13 Department for International Development and Decent Work and Labour Standards Forum, "Decent work and development finance: background paper for decent work and labour standard forum, March 2008", p.3, 2008, http://www.decentwork.org.uk/wp-content/uploads/DWLS-and-Development-Finance_final.pdf

14 The National Audit office states: "The annual rate of growth in its assets has averaged 24 per cent compared to a cost of capital threshold of five per cent set by the Treasury in 2004."

See:
National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.5, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1.

See also:
House of Commons Public Accounts Committee, "Investing for Development: the Departent for International Development's Oversight of CDC Group plc", Ev 3, Q18, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

Ms Nemat Shafik, Permanent Secretary, Department for International Development, told the Committee: "When CDC was restructured it has been returning rates of return of 24% over the last four years".

15 *Private E*ye, "That's Rich: How Britain's Poverty Relief fund abandoned the poor . . . while its bosses cleaned up", *Private Eye*, 3 September 2010, p.21.

16 CDC Group Plc, "Performance Review", *Financial Review 2009*, p.21, http://online.hemscottir.com/ir/cdc/fr_2009/download/pdf/Our_Business.pdf.

CDC's Chief Financial Officer states: "Whilst CDC's portfolio performance was less than its MSCI benchmark in 2009, on a three year rolling basis it was 6% ahead of the benchmark."

17 CDC Group Plc, *Development Review 2009*, p.2, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

18 CDC Group Plc, *Development Review 2009*, p.1, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

19 House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", p.6, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

20 National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.21, 2008, http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1.

21 India is the destination for 19 per cent of CDC's portfolio: China, 14 per cent; South Africa, 10 per cent; and Nigeria, 9 per cent.

See: CDC Group Plc, *Development Review 2009*, p.8, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

22 Agrawal, S., "Lions share of funds will go to China", *VCCircle.com*, 25 August 2010, http://www.vccircle.com/500/news/%E2%80%98lions-share-of-funds-will-go-to-china%E2%80%99

23 Hedge Fund Law Blog, "India embraces private equity", 21 August 2008, http://www.hedgefundlawblog.com/india-embraces-private-equity-funds.html.

24 Goel, V. and Pimpalkhute, H., "Private Equity: Global money in India Industry", Singhania and Co LLP, September 2007, http://www.singhania.com/Publication/IHL153_p137-139.pdf.

25 A recent survey conducted by private equity firm Coller Capital concluded that institutional investors see India as the second most attractive destination (after China) for venture/ growth capital investments in the Asia-Pacific region over the next two years.

See:
Utamsingh, V., "PE investments are back but is the activity sustainable?", *VCCircle.com*, 3 August 2010, http://www.vccircle.com/500/news/pe-investments-are-back-but-is-activity-sustainable.

Coller Capital, Global Private Equity Barometer (12th edition), Summer 2010, Coller Capital, London, http://www.altassets.com/pdfs/collercapital_barometer_summer2010.pdf

26 *See*:
"Carlyle raises $2.6bn, big chunk to flow into India", *The Economic Times* (India), 14 April 2010, http://economictimes.indiatimes.com/news/international-business/Carlyle-raises-26-bn-big-chunk-to-flow-into-India/articleshow/5799034.cms

"Blackstone's Indian power trip", *Asian Venture Capital Journal*, 18 August 2010, http://www.avcj.com/avcj/news/1728425/blackstones-power-trip-india

27 Preqin, a leading private equity research service, described South Africa's financial markets as having "blossomed to near global standards".

See: Preqin, "The Private Equity Market in Africa", p.4, 2010, http://www.preqin.com/docs/reports/Africa.pdf

28 Preqin, "The Private Equity Market in Africa", p.4, 2010, http://www.preqin.com/docs/reports/Africa.pdf

29 Preqin, "The Private Equity Market in Africa", p.1, 2010, http://www.preqin.com/docs/reports/Africa.pdf

30 Merrill Lynch/Capgemini, *2010 World Wealth Report*, 2010, http://www.capgemini.com/services-and-solutions/by-industry/financial-services/solutions/wealth/worldwealthreport/

Kapadia, N., "The Changing Paradigm", *Businessworld*, 17 July 2010 and 26 July 2010, 2http://www.businessworld.in/bw/2010_07_17_The_Changing_Paradigm.html

31 CDC Group Plc, *Growth for Development, Development Report 2008*, p.15, http://www.cdcgroup.com/uploads/developmentreport2009.pdf

32 In a 2008 report, Department for International Development and Decent Work and Labour Standards Forum state:

> "The CDC business model is unique among DFIs, the majority of which favour loan finance and technical support. While other similar institutions such as OPIC (US) also invest significant proportions of their capital through private equity fund managers, and several DFIs and IFIs are increasing their level of intermediated finance, no other DFI employs this approach for its entire portfolio."

See: Department for International Development and Decent Work and Labour Standards Forum, "Decent work and development finance: background paper for decent work and labour standard forum, March 2008", p.14, 2008, http://www.decentwork.org.uk/wp-content/uploads/DWLS-and-Development-Finance_final.pdf

33 According to DfID and the Decent Work and Labour Standards Forum, "Just over half of lending by European DFIs is in the form of equity. DFIs also commonly provide funds for technical assistance (also known as technical co-operation) . . . "

See: Department for International Development and Decent Work and Labour Standards Forum, "Decent work and development finance: background paper for decent work and labour standard forum, March 2008", p.3, 2008, http://www.decentwork.org.uk/wp-content/uploads/DWLS-and-Development-Finance_final.pdf

34 The Public Accounts Committee states: "DFID has encouraged CDC to look for ways in which it can invest more in low income countries, which may require CDC to increase its use of financing instruments other than equity"

See: House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", p.6, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf

35 House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", p.6, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf

36 Preqin, *2010 Investor Review*, p3, sample copy, http://www.preqin.com/docs/samples/2010_Preqin_Infrastructure_Review_Sample_Pages.pdf?rnd=1

37 International Development Act 2002, "Supplementary Powers", http://www.legislation.gov.uk/ukpga/2002/1

38 CDC Group Plc, *Development Review 2009*, p.5, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

39 The Public Accounts Committee states: "Although CDC invests more of its resources in poor countries than any other Development Finance Institution, there is limited evidence of CDC's effects on poverty reduction."

See: House of Commons Public Accounts Committee, "Investing for Development: the Departent for International Development's Oversight of CDC Group plc", p.6, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

40 The Committee notes: "By mid-2008, CDC had completed only four evaluations of its development impact, against an expected 22."

See:
House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", p.14, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

41 House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", p.14, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

42 The National Audit Office stated: "Research evidence suggests that investment . . . can be an effective way of providing, directly or indirectly, economic benefits for the poor. The extent to which it does so for the type of investments in CDC's portfolio is an issue on which further evidence is needed . . . "

See:

National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.7, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

43 National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.22, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

44 House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", Ev.1, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

CDC similarly claims: "Financial performance is . . . a good proxy for the likely impact that CDC will have on the department's objectives of poverty reduction".

See: *Private Eye*, "That's Rich: How Britain's Poverty Relief fund abandoned the poor . . . while its bosses cleaned up", *Private Eye*, 3 September 2010, p.21.

45 International Finance Corporation, "Are profits made at the expense of development?", October 2007,

http://www.ifc.org/ifcext/devresultsinvestments.nsf/AttachmentsByTitle/IFC_DE_Monitor_Sheets_2v3.pdf/$FILE/IFC_DE_Monitor_Sheets_2v3.pdf.

46 House of Commons Public Accounts Committee, "Investing for Development: the Department for International Development's Oversight of CDC Group plc", Ev.1, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.

47 Commenting on the International Finance Corporation report, the National Audit Office states:

> "Research on the development impact of individual investments by the International Finance Corporation showed that investee company profitability was closely associated with improvements in private sector development, such as new entrants in the market and changes in laws or regulations to improve the business environment. However, the research also showed that profitability was not as strongly correlated with environmental and social performance or wider economic benefits."

National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.23, 2008, http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

48 International Finance Corporation, "Are profits made at the expense of development?", October 2007, http://www.ifc.org/ifcext/devresultsinvestments.nsf/AttachmentsByTitle/IFC_DE_Monitor_Sheets_2v3.pdf/$FILE/IFC_DE_Monitor_Sheets_2v3.pdf.

49 International Finance Corporation, "Are profits made at the expense of development?", October 2007, http://www.ifc.org/ifcext/devresultsinvestments.nsf/AttachmentsByTitle/IFC_DE_Monitor_Sheets_2v3.pdf/$FILE/IFC_DE_Monitor_Sheets_2v3.pdf.

50 "Trickle down" theory assumes that even where economic growth initially benefits only the richer sections of society, it will eventually benefit the wider population through the jobs and other economic activities created when the rich spend their money. The theory has been widely criticised. In free market economies, where taxes are kept low and the state plays little role in directing economic outcomes, the tendency is for economic growth to result in wealth becoming concentrated within the upper and middle classes rather than being distributed throughout society as a whole.

51 Actis, "Globeleq", http://www.act.is/732,26/globeleq, accessed 11 September 2010.

52 Globeleq, "About Us", http://www.globeleq.com/about_us, accessed 11 September 2010.

53 War on Want, *Globeleq: The Alternative Report*, 2007, http://www.waronwant.org/attachments/Globeleq%20-%20The%20Alternative%20Report.pdf.

54 This has been a common outcome when energy utilities have been privatised. War on Want cites a 2004 report by the OECD which concludes that privatisation of public utilities such as electricity has been characterised by "dramatic failures" to date, as "profit-maximising behaviour has led privatised companies to keep investments below the necessary levels, with the result that rural communities and the urban poor were further marginalised in terms of access to electric power".

See: J-C. Barthélemy, C. Kauffmann, M-A.Valfort and L. Wegner, *Privatisation in Sub-Saharan Africa: Where Do We Stand?* Organisation for Economic Cooperation and Development, Paris, 2004.

55 Globeleq, "History", http://www.globeleq.com/about_us/history, accessed 11 September 2010.

56 Hall, D., *Energy privatization and reform in East Africa*, Public Services International Research Unit, 12 January 2007
http://www.psiru.org/reports/2006-11-E-Eafrica.doc

See also: “Globeleq Under Attack”, *Africa Energy Intelligence*, 20 September 2006, http://www.africaintelligence.com/AEM/electricity/2006/09/20/globeleq-under-attack,22525372-ART. .

57 *Private Eye*, “That’s Rich: How Britain’s Poverty Relief fund abandoned the poor . . . while its bosses cleaned up”, *Private Eye*, 3 September 2010, p.23.

58 “Umeme power tariff cuts shock manufacturers”, *The Independent* (Uganda), 12 January 2010, http://www.independent.co.ug/index.php/business/business-news/54-business-news/2365-umeme-power-tariff-cuts-shock-manufacturers

59 “Report shows how govt lost Shs 452 billion in Umeme deal”, *The Independent,* 20 October 2009, http://www.independent.co.ug/index.php/cover-story/cover-story/82-cover-story/1965-report-shows-how-govt-lost-shs-452-billion-in-umeme-deal

60 “Salim Saleh heads electricity scam probe”, *New Vision*, 16 July 2009, http://allafrica.com/stories/200907170007.html.

61 “Umeme power tariff cuts shock manufacturers”, *The Independent*, 12 January 2010, http://www.independent.co.ug/index.php/business/business-news/54-business-news/2365-umeme-power-tariff-cuts-shock-manufacturers

62 Actis, “Umeme”, http://www.act.is/508,65/umeme, accessed 11 September 2010.

63 Hall, D., “Energy privatization and reform in East Africa”, 2007. Hall, D., *Energy privatization and reform in East Africa*, Public Services International Research Unit, 12 January 2007
http://www.psiru.org/reports/2006-11-E-Eafrica.doc

64 “Songas tariff hike plans indefensible”, *The Guardian* (Tanzania), 11 April 2008, http://216.69.164.44/ipp/guardian/2008/04/11/112167.html

65 Actis, “Accra Mall”, http://www.act.is/508,1/accra-mall.

66 Actis, “Accra Mall”, http://www.act.is/508,1/accra-mall.

67 Accra Mall, “History”, http://www.accramall.com/about-us/history.

68 CDC states: “ the informal sector can also benefit from the impact of developing the formal consumer sector. A retail development for instance can attract local retailers and SMEs to the vicinity where they know consumers will be.”

CDC Group Plc, *Development Review 2009*, p.49, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

69 CDC Group Plc, *Development Review 2009*, p.50, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

70 Guttman, Y.A., “From Markets to Malls: Effects of the Emergence of Shopping Malls in African Cities”, Yoav Acoustica (Guttman) blog, 30 May 2010, http://yoavguttman.blogspot.com/2010/05/africa-from-markets-to-malls-effects-of.html

71 CDC Group Plc, *Development Review 2009*, p.49, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

72 Aguda, N., "The Globalisation of Retail in African Cities: Lessons from 'the Mall that has it all' in Accra Ghana,
http://www.udel.edu/uaa/pdfs/uaa_2010_abstracts.pdf

73 *Private Eye*, "That's Rich: How Britain's Poverty Relief fund abandoned the poor . . . while its bosses cleaned up", *Private Eye*, 3 September 2010, p.22.

See also: CDC Group Plc, "Development Review 2009", p.32, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf

74 CDC reports that "over US$3bn was paid in taxes to domestic governments over the period of investment by 179 companies reporting this data to CDC".

See: CDC Group Plc, *Development Review 2009*, p.3, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf.

75 CDC Group Plc, *Development Review 2009*, p.48, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf.

76 CDC Group Plc, *Development Review 2009*, p.32, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf.

77 For ECP, *see*: Intercontinental Bank, PLC, Organizational Record, AFDEVINFO,
http://www.afdevinfo.com/htmlreports/org/org_47948.html, accessed 7 June 2010.

78 For Ethos, *see*: *Bloomberg Business Week* database,
http://investing.businessweek.com/businessweek/research/stocks/people/relationship.asp?personId=25068867&ticker=OCEANIC:NL&previousCapId=20357513&previousTitle=OCEANIC%20BANK%20INTERNATIONAL

79 CDC Group Plc, *Development Review 2009*, p.48, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf.

80 National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.26, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

81 NAO states: "CDC evaluates performance at fund level, rather than for individual companies, based on information supplied by the fund manager".

See: National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", "The Impact on Poverty and Development", p.24, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

82 National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", "The Impact on Poverty and Development", p.24, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

83 "Although some Fund Managers provide more comprehensive reporting, most reports lack a clear evidence base or independent verification".

See: National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", "The Impact on Poverty and Development", p.6, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

84 National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", "The Impact on Poverty and Development", p.6, 2008, http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

85 "Although some Fund Managers provide more comprehensive reporting, most reports lack a clear evidence base or independent verification".

See: National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", "The Impact on Poverty and Development", p.6, 2008, http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

86 NAO states:

> "[A]s a consequence of working through intermediary Fund Managers, CDC now reports less information on compliance with business principles than it did prior to 2004, when it reported analyses of the quality of health and safety in investee companies and changes in the last year."

See: National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.24, 2008 http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

87 National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.24, 2008, http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

88 One-fifth (20 per cent) of the long-term bonus is tied to development outcomes.

See: National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.30, 2008, http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

89 In 2008, 12 evaluations of development impacts were carried out and 20 in 2009.

See:
CDC Group Plc, *Growth for Development: Development Report 2008*, p.28, 2009, http://www.cdcgroup.com/uploads/developmentreport2009.pdf.

CDC Group Plc, *Development Review 2009*, p.1, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

90 CDC Group Plc, "Development Review 2009", p.1, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

91 CDC states:

> "The understanding which CDC seeks from its evaluations includes the extent to which CDC's capital contributed to poverty alleviation and macro-economic growth. An understanding of this sort requires clearer focus upon the nature of the fund than is possible from the data provided by typical annual monitoring reports."

See:
CDC Group Plc, "Development Review 2009", p.58, 2010, http://www.cdcgroup.com/uploads/development_review_2009.pdf.

92 CDC's Investment Code (para 5: Management Systems for CDC) states:

> "CDC will . . . evaluate its Fund Managers' implementation of the Investment Code periodically, using internal and external sources as appropriate, usually: at the end of a fund's investment period or the half-way point of the duration of a fund, which would typically be five years after a standard fund has commenced; and at the end of the duration of a fund, which would typically be 10 years after a standard fund has commenced"

See:
National Audit Office, "Investing for Development: The Department for International Development's Oversight of CDC Group plc. Report by the Comptroller and Auditor general", p.84, 2008,
http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1

93 CDC Group Plc, *Development Review 2009*, p.23, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf.

94 CDC Group Plc, *Growth for Development: Development Report 2008*, p.27, 2009,
http://www.cdcgroup.com/uploads/developmentreport2009.pdf.

95 RAID, Memorandum to House of Lords/House of Commons Joint Committee on Human Rights, "Any of our business? Human Rights and the UK Private Sector", Ev 278, 2009,
http://www.publications.parliament.uk/pa/jt200910/jtselect/jtrights/5/5ii.pdf .

96 DEG, "Our Mandate",
http://www.deginvest.de/EN_Home/About_DEG/Our_Mandate/Development_Policy_Mandate/GPR-Brief-Description-Englisch_02-2010.pdf

97 CDC Group Plc, *Development Review 2009*, p.50, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf.

98 CDC states: " the informal sector can also benefit from the impact of developing the formal consumer sector. A retail development for instance can attract local retailers and SMEs to the vicinity where they know consumers will be."

CDC Group Plc, *Development Review 2009*, p.49, 2010,
http://www.cdcgroup.com/uploads/development_review_2009.pdf.

99 CDC Group Plc, *Financial Review 2009*, p.5,
http://online.hemscottir.com/ir/cdc/fr_2009/ar.jsp?page=1&zoom=1.0&layout=single.

CDC states: "Managers invest responsibly in accordance with CDC's investment code".

See also: CDC Group Plc, *Growth for Development, Development Report 2008*, p.16,
http://www.cdcgroup.com/uploads/developmentreport2009.pdf

> "CDC . . . requires a strong commitment to responsible investment principles and requires its fund managers to sign up to CDC's Investment Code on environmental, social and governance (ESG) matters".

The Investment Code is available at:
http://www.cdcgroup.com/uploads/cdcinvestmentcode.pdf

100 CDC Investment Code on Environmental, Social and Governance Matters, "Governance: Business Integrity and Good Corporate Governance",
http://www.cdcgroup.com/uploads/cdcinvestmentcode.pdf

101 CDC's Investment Policy states:

> "In order to implement CDC's Investment Code effectively, CDC requires its Fund Managers to enter into a formal agreement pursuant to which each Fund Manager commits to an investment undertaking similar in substance to sections 1 – 4 of this Investment Code".

See: CDC Group, "Investment Code", http://www.cdcgroup.com/uploads/cdcinvestmentcode.pdf

102 CDC Group Plc, *Growth for Development, Development Report 2008*, p.19, http://www.cdcgroup.com/uploads/developmentreport2009.pdf

103 CIEL and others, "Comments on IFC's Consultation Drafts of the IFC Sustainability Policy and Performance Standards and Disclosure Policy", August 2010 (unpublished).

104 "The CDC Investment Code states that it is 'compatible with' the IFC Performance Standards. The specific provisions of the CDC Code on labour are significantly less detailed than IFC PS2, however, and do not cover several material aspects, such as employment documentation, HR policy, retrenchment, non-employee workers, supply chain and worker grievances."

See:
Department for International Development and Decent Work and Labour Standards Forum, "Decent work and development finance: background paper for decent work and labour standard forum, March 2008", p.24, footnote 3, 2008
http://www.decentwork.org.uk/wp-content/uploads/DWLS-and-Development-Finance_final.pdf

See also:
TUC, *CDC: Time to improve its poor effort*, September 2010,
http://www.tuc.org.uk/extras/TUC_report-lifting_CDCs_poor_effort_Sept2010.pdf

105 If the host country does not agree to EITI, OPIC may go ahead with an investment as long as the country does not prevent the applicant from meeting EITI disclosure requirements.

See:
OPIC, "Environmental and Social Policy Revisions", August 2010,
http://www.opic.gov/sites/default/files/docs/final_environmental_social_policy_statement.pdf

We endorse many of the criticisms made of the Extractive Industries Transparency Initiative, but mention it here to make the point about OPIC's conditionalities being stronger than those of CDC.

106 "How James Ibori bankrupted Intercontinental and Oceanic banks", undated, *Urhoboland.com*, http://www.urhoboland.com/News%20Files/How%20James%20Ibori%20bankrupted%20InterContinental%20and%20Oceanic%20banks.htm

107 According to the intergovernmental Financial Action Task Force, Politically Exposed Persons (PEPs) are:

> "[I]ndividuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories."

See:
FATF Recommendations: Glossary
http://www.fatf-gafi.org/glossary/0,3414,en_32250379_32236920_34295666_1_1_1_1,00.html#34285860

The Financial Action Task Force (FATF) is an inter-governmental body that develops and promotes national and international policies to combat money laundering and terrorist financing.
http://www.fatf-gafi.org/pages/0,3417,en_32250379_32235720_1_1_1_1_1,00.html

108 “Ibori, Wife Convicted of Theft—UK Police”, *Nigerian Muse,* 16 January 2008 http://www.nigerianmuse.com/20080116210010zg/nigeriawatch/officialfraud/Ibori_wife_convicted_of_theft_UK_Police

109 Complaint for Forfeiture, United States District Court for the District of Maryland, United States of America v. $1,019,000.40 in U.S. CURRENCY, JFM 97-1779. http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/CDC%20Memorandum_0.pdf

110 “How EFCC Arrested Ibori”, *All Africa*, 13 December, 2007 http://allafrica.com/stories/200712130001.html

111 “Ibori’s Assets Remain Frozen, Says UK Courts”, *All Africa*, 16 November 2007 http://allafrica.com/stories/200711160235.html

112 “UK Police Confirm Ibori arrest”, *Sahara Reporters*, 13 May 2010 http://www.saharareporters.com/real-news/sr-headlines/6067-uk-police-confirms-iboris-arrest-in-dubai.html

113 “Concerns over alleged corruption in CDC-backed companies in Nigeria: Memorandum to the Secretary of State for International Development”, June 2010, http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/CDC%20Memorandum_0.pdf

114 CDC Group, “Private Eye and CDC: A different view”, CDC, 8 September 2010, http://www.cdcgroup.com/uploads/privateeyeandcdc-adifferentview.pdf

115 *Private E*ye, “That’s Rich: How Britain’s Poverty Relief fund abandoned the poor . . . while its bosses cleaned up”, *Private Eye*, 3 September 2010, p.21.

116 House of Commons Public Accounts Committee, “Investing for Development: the Department for International Development’s Oversight of CDC Group plc”, Ev. 24, 2009, http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/94.pdf.