

# CSFI

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**CDC: Making a buck by doing good in difficult parts? A round-table on the evolution of what used to be the Commonwealth Development Corporation. With Richard Laing and Sir Malcolm Williamson (CDC), Bowen Wells and Alistair Boyd (Royal African Society) held on Wednesday, September 17, 2008 at Bakers' Hall, Harp Lane, London, EC3R 6DP, from 12:30-2:15pm.**

The relationship between the CDC and its shareholder, HM Government, has been confused ever since the Colonial Development Corporation was founded in 1947. The Hansard records of the debate show MPs were split on whether it should exist to source cheap food from the colonies for starving Britons or boost economic growth in far-flung parts of the dying Empire. Thanks to a flawed attempt to airlift 20 million eggs back to the UK from The Gambia, the answer came down in favour of the latter. It then developed into the Commonwealth Development Corporation, then as CDC plc, a public-private partnership in 1997 under New Labour, and finally in its current form as CDC. In its latest transmogrification it has spun off much of its investment expertise into two private investment fund managers, Actis, which makes up 60% of its portfolio, and Aureos, which makes up 5% and focuses on small businesses. The first speaker says its mission is to invest its £2.5bn of assets in private companies operating in the poorest countries. Its work is important because history shows countries can achieve development without economic growth in the form of wealth and job creation. CDC invests in 600 companies via 120 special vehicle funds run by 55 fund managers on the ground. These companies employ 250,000 people directly and a further 1 million indirectly, who in turn often support five family members.

The second speaker said the CDC sought to get into areas where other lenders would not operate and to add value. He said it had been criticised for funding shopping malls but said that was justified as they often acted as magnets for qualified expatriates to return home. He said that CDC financed mobile telephony in Africa when no one else would. Looking forward he said he was worried by the large inflows of capital into Africa, some of which might end up by misallocated.

The third speaker said he was concerned that CDC was retreating from agriculture, where it has assembled a large degree of talent and expertise. The first speaker said agribusiness made up 8% of its portfolio and said it was important for countries to have a mixed economy with sectors such as telecom services, gas banking &c. The third speaker said the CDC was in a privileged position because it did not pay tax in the UK and never paid dividends, which might mean it simply ended up competing unfairly with other investors. The second speaker said if it paid tax it would simply

have to come to the Treasury for more money every year. As long as the CDC could show it successfully reinvested its profits there was no need to pay dividends or tax. The fourth speaker praised the CDC for blazing an equity trail in poor countries that other investors have undoubtedly followed. Should it just carry on or do something unique? He suggested the CDC reopen its agricultural book – but not as it did in the past. It should do more research and get to grips with how the whole food chain worked and get into the debates on GMOs and biofuels. Even more importantly was the issue of water and sewage, which would become crucial in the years to come. Could the CDC design an economic model for investing in that sector?

One member echoed that saying the CDC should be funding frontier technologies. One example was deforestation and reforestation, which are a key part of the climate change debate. The second speaker said the CDC had a clear mission and small staff. If it wanted to change its mission it would have to recruit into skills areas it currently did not occupy. The first speaker echoed that, saying the Government had not set up the CDC to carry out that role. He doubted the CDC would spend money on research since the money was better used on investment. As for water and sewage, this was an ideal area for joint projects with its co-investors.

One member asked about the impact of the inflow of money from emerging economies such as China. The first speaker said he read a lot of that issue but did not see much of the money in the areas where he was operating. Yes, you do see it in infrastructure but demand for capital to fund those types of projects is immense. Another member asked whether there was unhealthy competition for small businesses because of the volume of cash pouring into microfinance. The first speaker said the CDC would always back off rather than get into sort of competition for clients.

One member asked about *Private Eye*'s long campaign against the CDC on the issue of its profits, pay and policies. The second speaker said one allegation was that its Actis share was sold off too cheaply. He said the figures showed that to be unsubstantiated but admitted the National Audit Office had not helped by releasing an inaccurate statement. The first speaker said what annoyed him was the implication in many articles that CDC was making profit at the expense of development. He said that was simply rubbish as having sustainably profitable companies was the only way to create long-term wealth and employment.

The chair asked the third and fourth speakers to say what changes they would like to see the CDC adopt. The fourth speaker said it should not be privatised but should carve out an imaginative role at the frontier of technology. The third speaker said he would like to see Aureos move further to help small start-ups by offering better terms than microfinance was doing. He added that at some point the Government should look to see if the CDC would be able to do better by being in the private sector. The second speaker played a straight bat on that issue, saying simply the ultimate hope was that further successes in development would effectively make the CDC redundant in its current form – at which point it could be privatised.