Doing More Harm Than Good? Our Latest Report on the UK's Development Bank, CDC

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Amid the recent back and forth over whether the Department for International Development will be merged into the Foreign and Commonwealth Office, very little attention has been paid to the role of the UK's development finance institution, CDC, in UK development policy. This is a worrying oversight, because in CDC we have an example of what the entirety of UK aid might look like if the merger goes ahead.

A decade ago, CDC was an institution that seemed to be immersed in a new scandal every other month. It attracted sustained criticism that its investments had questionable impacts for poor communities, were more focused on securing high financial returns than dealing with poverty, were opaque, made extensive use of tax havens, and that its executive salaries were extraordinarily high for an organisation with a supposed development mandate. CDC oversaw a portfolio of dubious investments, ranging from luxury hotels and shopping centres to gated communities and private hospitals.

However, in 2011 a package of reforms were introduced to transform CDC and, in 2017, a law was passed lifting the limit of aid money the bank could receive from £1.5bn to £6bn, with an option for this to increase further to £12bn. In light of its growing importance, nine years on from the Coalition government's reforms, we have taken another look at CDC. What we have found is that the reforms have made little difference. In this report, we find that CDC remains a deeply flawed organisation that is often doing more harm than good.

We are calling on the government to give CDC a new mandate and structure before it gives it any more money. A reformed CDC must be accountable to the communities it invests in, must stop directing its investments through tax havens, and must not invest any more money in fossil fuels.

Below, we have summarised our key findings and criticisms from the report.

An unwillingness to reform

- Of the companies and private equity funds in which CDC owns more than 20%, 77 (66.4%) are based in countries commonly seen as tax havens, 52 (44.8%) in Mauritius alone.
- CDC is making nearly three times more profit (9.2%) on its investments than it is supposed to (3.5%).
- Although reforms were supposed to reduce the amount of money spent by CDC through private equity funds (£2bn a year), this figure has stayed roughly the same (£1.9bn).
- In 2018, the average salary at CDC was £104,150 a year, with 48 employees

earning more than the UK prime minister. When bonuses are taken into account, 85 CDC employees took home more than £150,000 a year.

A decade ago, CDC faced significant criticism for its approach, which was wholly inappropriate for an institution designed to tackle global poverty. Pay and bonuses were excessively high, CDC was making nearly 20% profit on its investments, and it was fuelling a global system of inequality by investing through private equity funds (where money is creamed off the top by unaccountable middlemen) and by channeling its investments through tax havens. In short, CDC was profiting from poverty.

This criticism spurred new international development secretary Andrew Mitchell into reforming CDC in 2011. Mitchell set out a package of reforms, announcing that CDC would become a "development-maximising, not a profit-maximising, enterprise". At the time these reforms were lauded, by some, as transformational, and criticism of CDC receded. However, our report highlights that CDC is still making a higher than targeted level of profit, that it is investing almost as much through private funds as before the reforms, and that it is continuing to make use of tax havens rather than ensuring that governments in the global south get the full benefit of its investments.

Fuelling climate crisis

- Despite ministers claiming in 2019 that "CDC…has not made any new investments in anything coal-related since 2012", CDC has given over $160m to two coal-related projects in 2014 and 2016. In one case, CDC lost an estimated $115m when the company collapsed.
- CDC has invested in numerous heavy fuel oil-burning projects which emit highly polluting "black carbon" particulates. This includes a $39 million loan investment in a power plant in Guinea, and two undisclosed investments in an HFO-burning plant in Benin and an HFO-burning "powership" in Ghana.

Recent announcements made by the government suggest that it is making efforts to divert aid money away from fossil fuels. However, we found that CDC is continuing to channel large amounts of money into oil and gas infrastructure in sub-Saharan Africa. We also found that CDC has made investments in coal-related infrastructure, despite government claims that it has not done this in almost a decade. CDC has also invested in other highly polluting industries such as plastics production, mining and waste incineration. These investments severely undermine the government's claims that it is making its development policy completely aligned with the UK's commitments under the Paris Agreement. While CDC tries to defend some of these investments by claiming they are cleaner than coal power, by continuing to invest in fossil fuel infrastructure governments and financial institutions will lock in high carbon emissions for generations to come, making it almost impossible to limit global warming to 1.5°C.

We are therefore calling for a total ban on all UK aid and UK Export Finance (including CDC investments) going to fossil fuel power generation, exploration, production and distribution.

No accountability to communities

- CDC has given repeated loans to a company, Feronia Inc, which owns several oil palm plantations in DR Congo, despite an ongoing murder investigation involving

a company employee and the death of a local community activist.
- Communities in DR Congo have protested Feronia's presence for many years as the plantation concessions derive from a colonial landgrab.

There have been reports of ongoing tensions between employees of Feronia's subsidiary PHC and some local community members relating to several seperate incidents over a number of years. RIAO-RDC has been supporting communities in DRC and has called for CDC to take greater action over the murder of Joel Imbangola Lunea last June. Human Rights Watch has also reportednumerous concerns over the health of Feronia-PHC employees and has drawn attention to potential violations of health and safety regulations.

Although an extreme case, CDC's repeated investments in Feronia show that it remains a highly unaccountable institution, particularly to the communities which are impacted by its investments the most.

Privatising healthcare and education around the world

- CDC has invested significantly in private healthcare in India and sub-Saharan Africa, but it is incredibly difficult to tell what positive impact this has had.
- CDC has also invested significantly in private education, in both low fee private school chains and elite private institutions.

Despite evidence that the privatisation of education and healthcare undermines public services and exacerbates inequalities, CDC has also made a number of dubious investments in these areas. We are opposed to the use of UK aid to invest in private healthcare and education because fee-paying institutions, by definition, exclude people and this approach diverts money away from the world's most marginalised communities.

However, even if this approach was suitable, CDC's strategy includes investing in clearly inappropriate projects including elite private schools and elite private hospitals which market themselves to international patients. This approach is fuelling the privatisation of public services under the banner of development.

Read the full report here.

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