

Development fund 'uses private equity-type policies'

- **Government offshoot accused over tax havens**
- **CDC dismisses claims that it impoverishes workers**

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A government-owned fund that invests almost £3bn in developing countries came under fire yesterday from anti-poverty campaigners, who accused the company of adopting private equity-style investment techniques, including the use of offshore tax havens, to exploit local businesses and avoid paying tax to hard-pressed governments.

Campaigners, including the charity War on Want and opposition MPs, also claimed that the fund's "western capitalist" investment programme undermined the living standards of workers in some of the poorest African nations.

CDC Group, formerly the Commonwealth Development Corporation, is owned and run by the Department for International Development and invests in private businesses across Africa, Asia and Latin America. It moved last week to change its focus in response to a government review. Ministers said the fund would switch investment policy to focus on countries worst affected by the economic downturn. Poorer nations, "particularly in sub-Saharan Africa and south Asia", would become the target of investments in local businesses "as part of a mission to alleviate poverty by generating economic growth".

As part of the move, CDC appointed Richard Gillingwater, dean of Cass Business School, as its new chairman. Last week DfID's secretary of state, Douglas Alexander, told parliament it had exceeded its investment targets "by a considerable margin". He said since 2003 the size of the fund had jumped from £1bn to £2.7bn following investments in a wide range of businesses, ranging from copper mining in Zambia to student hostels in Uganda and a biodegradable plastic manufacturer in Indonesia.

Alexander said the fund needed to "strengthen its contribution to the government's objective of reducing poverty in developing countries where growing companies find it difficult to find financial backing." However, the review failed to persuade critics that CDC's policies supported small businesses unable to find private-sector funding. They said they would continue campaigning against the CDC's increasing commercialisation by the government, including the spin-off of its fund management arm, Actis.

The sale of Actis has become increasingly embarrassing to the government after the influential Commons public accounts committee put the firm's value at £182m to £535m - considerably more than the price it fetched when it was sold.

Ministers sold 60% of Actis to its management for £373,000 in 2004. The former public officials were paid a £2.3m bonus for completing the transaction, leading to criticism that they were in effect given the money to buy a government-supported business on the cheap. Accountants KPMG valued the business before the sell-off. The Tories and Liberal Democrats have compared the meteoric rise of the former government employees' stake in Actis to the sale of the defence contractor QinetiQ and claimed it showed government incompetence.

Since 2004, CDC has channeled hundreds of millions of pounds into Actis funds, which are combined with other private-sector money before being invested in businesses in developing countries.

Actis runs its funds from offshore havens to benefit from "efficient" tax regimes. Like rival private equity houses, it pays staff commission and a percentage of profits from investments before passing on the surplus to CDC.

Richard Laing, CDC chief executive, said criticisms of the company's ethos and methods were rooted in an ideological aversion to private equity. He said it was necessary for both CDC and Actis to mimic private equity methods or else other private equity houses would refuse to join their investment projects.

Laing said he accepted there was a need to explain CDC's activities to its shareholder, "the UK public", but he argued critics were naive for not accepting the need to invest widely and efficiently in developing economies. "We must invest in private-sector businesses that are employing people, that are paying taxes, that are growing and are successful - in other words, that are profitable. We should not be supporting failing businesses."

He accepted that the funds channeled profits offshore to avoid tax but said CDC-backed firms paid more than £250m in taxes to governments.

Michael Moore, Liberal Democrat development spokesman, said CDC had failed to show it was different from private equity firms. "CDC argues it applies higher standards and leads by example, but it is not obvious that is the case."

But the company said it had responded to critics with changes made since the DfID report. Laing said: "The DfID review has brought about real change. Investment in the poorest countries will increase from 47% to 75% and sub-Saharan Africa will get the lion's share."

War on Want was unimpressed. John Hilary, executive director, said that by investing to boost economic growth, CDC was ignoring evidence that such growth could increase poverty. "Across much of Africa - in Kenya, Côte d'Ivoire, Senegal, Zambia - GDP has risen while the numbers out of work have increased.

"The attitude is that it's all going to come right in the end so let's trust the market, when the evidence is screaming in the opposite direction."