Secretary of State for International Development Andrew Mitchell's speech on wealth creation at the London School of Economics on Tuesday 12 October 2010

Thank you Paul and Howard and thank you to the International Growth Centre for hosting this event. It is a particular pleasure to speak here this evening at the London School of Economics an institution whose list of alumni reads like the edited highlights of "Who's Who" and who yesterday added another Nobel prize winner to their tally.

It was one of the LSE's own founders, George Bernard Shaw, who once described poverty as the greatest of evils and the worst of crimes. A hundred years on I believe that just as we look back with disbelief at the social poverty of Shaw's Britain, so future generations may yet judge us equally harshly - as passive colluders in global poverty. This government is not prepared to accept such a shameful distinction.

That's why at the UN Summit last month the Deputy Prime Minister led the way in calling for reinvigorated action across all the Millennium Development Goals and announced that Britain will by 2015 save the lives of at least 50,000 women and a quarter of a million newborn babies. We will do everything in our power, use every policy tool at our disposal, bang every head together, if necessary, in our determination to make life better for the world's poorest.

Just a month ago I spent an unforgettable night in the Azernet Berbera district of Ethiopia - 200 kilometres southwest of Addis Ababa. I wanted to see what conditions were like for the millions of Ethiopians living on less than a dollar a day. The family I stayed with were very poor. There were fourteen of us in the hut that night – not counting the livestock. But that family had access to the four key Millennium Goals. Within the last two years they had secured access to clean water, sanitation and basic healthcare. Six of the eight children are in school just ten minutes away (not least due to the good work of ActionAid). But they remain grindingly poor. Each child has only the clothes in which they stand. The battle to secure enough food is fought every day of the year.

So, looking at those children, whose life chances contrast so dramatically with my own, I ask myself how their generation can exit from such grinding poverty. I suggest tonight that there are perhaps two key points. The first is without question their access to education. And the second, as the farmer just up the road has realised; if he can join together with others to market the beans he grows, then he can access that golden thread of wealth creation that is a universal instinct. That story, that instinct, is what this speech is all about.

Our generations, for the first time ever, have the huge opportunity to help people to move beyond mere survival. To a place where people and economies can grow. Where the private sector can unleash its immense development potential; where individuals can create their own wealth; and where countries can begin to rely on their own economies and not on the cheques or the charity of others.

I do not underestimate the enormity of our task. Despite the progress that has been made since the Millennium Development Goals were set ten years ago we are a long way from eradicating poverty. The figures speak for themselves:

- 70 million children cannot go to school;
- Almost 900 million people lack access to clean water;
- Nearly a thousand women die every day in childbirth or from pregnancy-related causes;
- And more than 8 million children will never live to see their fifth birthday.

No-one can listen to those statistics and feel comfortable. We all know there is no single answer to this. But what we do know is that economic growth contributes to development and that the private sector can be the engine of that growth. Done right it promotes new jobs, new opportunities, new markets, new prosperity. The sinews of wealth creation. As even the former Prime Minister said recently in Kampala: "The job of aid is to kick-start business-led growth and not to replace it".

So I've come here to this great university tonight to make three points:

- The first is that it is wealth creation, jobs and livelihoods above all which will help poor people to lift themselves out of poverty. Aid is a means to an end, not an end in itself.
- Secondly, that we will bring a new energy to Britain's promotion of wealth creation in development and reconfigure within my department to meet this challenge.
- And thirdly, that we will reposition CDC so that it rediscovers its development mission, and acts as an engine through which the British taxpayer supports inclusive investment in some of the poorest places in the world.

So, let me begin by underlining the case for sustainable growth.

It's easy to forget that poverty has been the natural state of humankind for thousands of years. It was only when the industrial revolution kick-started our manufacturing economy a couple of hundred years ago that Britain really accelerated its way out of poverty. This same pattern is evident in the history of all developed countries. The starting point might be different but the journey has been the same. Even America was poor once.

The power of economic growth, and the importance of the path taken, is incontrovertible. Compare South Korea and Zambia. In 1960 South Korea had a GDP per capita only twice that of Zambia. By 2009 as a direct result of their different growth paths and policies, South Korea's per capita income was nearly 40 times higher than Zambia's, while the rate of children dying before their fifth birthday was 5 per thousand compared to Zambia's 141.

And look at China where, during the period of nearly 10 per cent growth per annum between 1990 and 2005, 475 million people were lifted out of poverty.

Economic growth isn't just an abstract process of statistics and percentage points: behind that slightly arcane language lie families and communities. For every extra percentage point of growth more schools can be built, more health facilities developed and more safe drinking water supplied.

So - if you're in the business of helping reduce poverty, you have to believe in economic development and growth. Growth that is broad-based, inclusive and sustainable; in which all people benefit from the proceeds of prosperity; and in which even the poorest have access to the opportunities and markets that it creates.

What is our role? There is no magic growth cocktail. As Michael Spence said after chairing the Growth Commission, there is no recipe for growth, only ingredients.

And we have to be humble. Politicians and bureaucrats don't have a good track record at trying to pick winners or engineer growth. History is littered with the failures of those who have tried.

But we always remember this: no country has grown on a sustained basis in recent times without successfully integrating itself into global markets. For a country to grow it has to be part of the global goods and services market and it must also be able to access global capital. And it is the private sector that holds the key to that integration.

If the private sector is going to deliver its full development potential in this regard, then countries need to get the climate right for both domestic and foreign investment.

So, through our development work, we will help to build prudent macroeconomic policies, including monetary and fiscal policies, that support growth, low inflation and sustainable finances.

And we will support developing countries as they identify and attempt to tackle the barriers to growth. This might mean helping them to build the legal infrastructure through which property rights and contractual agreements can be enforced, and investors assured that they will be treated fairly in all circumstances. Or it might mean developing the physical infrastructure by which supplies and goods can be transported, the communications infrastructure through which information can be disseminated or the financial infrastructure through which credit can freely flow.

Ultimately, domestic investors are just as important if not more so than any amount of foreign direct investment. If the private sector is to be the real engine of growth in a developing country, and the business leaders of tomorrow are going to emerge and lead the way, we must work with developing country governments to get some critical prerequisites in place:

1. One: a competitive environment – a level playing field for all investors to enter the market place, without vested interests and other barriers thwarting fair market competition.
2. Two: reduced barriers to market entry and to cross-border trade, which exist everywhere but are especially high in Africa.
3. Three: an appropriate regulatory framework. Developing countries have, in many cases, made good progress on improving business regulations. Last year, out of 183 countries ranked by the World Bank for the ease and cost of doing business, Rwanda rose from 143rd place to 67th. This meteoric rise has been achieved with their government's leadership and donor support. And thinking back to what it all means for individuals' lives, in Afghanistan, for example, an entrepreneur in Kabul who wants to set up a business today no longer has to spend 3 months doing it as they did 5 years ago: it could be done by this time next week.

Throughout all of this, of course, we must never forsake the local consumer, the local workforce and the local environment. Growth that simply squanders today's assets at the cost of tomorrow's, is not growth in the true sense of the word. Future generations matter too.

The importance of sustainable growth cannot be over-stated and I shall return to this theme at greater length next month when I speak on the subject of development and climate change. But let me say this: over-farmed land, over-mined resources and over-depleted water supplies may yield benefits now but will drive even deeper poverty in years to come.

The responsible exploitation of non-renewable mineral and petroleum resources is a case in point and is a topic that Paul explored in his excellent book: "The Plundered Planet". This should be required reading for all governments.

If countries are to invest in the responsible exploitation of non-renewable resources it is essential that they have in place a solid policy and regulatory framework to safeguard profits, collect taxes, regulate investors, ensure transparency and protect the environment.

Throughout all of this the UK will lead by example:

Where British businesses invest and operate in developing countries, UK membership of the OECD – and our own beliefs and expectations - require that they do so in a manner that is socially responsible, environmentally sound and legally compliant.

This Government strongly supports the Extractive Industries Transparency Initiative and the OECD Guidelines on Multinational Enterprises.

And let me be clear: this Government has a zero tolerance approach to corruption. The new Bribery Act, passed earlier this year, puts beyond doubt the fact that bribery of foreign officials and office-holders by UK nationals constitutes corruption, and makes it punishable as such through the British courts. Why it took the last Government so many years to put such vital legislation to Parliament, when the OECD Anti Bribery Convention was ratified as long ago as 1998, I don't know. There is no question that this Government supports it 100 per cent.

I move now to my second key point tonight. It is my intention to recast DFID as a government department that understands the private sector, that has at its disposal the right tools to deliver and that is equipped to support a vibrant, resilient and growing business sector in the poorest countries. To do this we will need to add new types of people with different skills.

I want to preface my comments by recognising that it is the state that must guarantee access for all to basic services such as education and health care, that are vital for quality of life and that represent a safety net for the most vulnerable. And it is the state that must get the enabling environment right for investment and growth. But when it comes to wealth creation it is the private sector that must take the lead in creating jobs and opportunities.

And let me be clear about the lazy thinking that equates the private sector with some kind of ideological promotion of privatisation. We will support what works and we'll be completely non-ideological about it.

That's why at the UN Summit last month I joined ten other Development Ministers in endorsing a commitment to strengthen our work with the private sector. And in promising to create a new Private Sector Department within DFID I have sent, I hope, the clearest of signals that I believe business has a vital role to play.

This is the stuff of real change. There is already a genuine sense of excitement within DFID about what this new approach can achieve. I want this department to be the place that defines, lives and breathes the new DFID culture of private sector-led development, an example for other development bodies to follow.

I want DFID to learn from business. I want to explore how we might enrich DFID's own talent pool with a series of short-term secondments from the private sector in order to inject new, business-savvy DNA into the department.

I also want the new department to bring together representatives from business in ad hoc, time limited groups, being bold and finding creative solutions to development challenges. That, after all, is what business does so very well.

Let me give you just a few examples of the sort of creativity that private sector companies in their core business have already shown.

In India, the health company, Lifespring, plans to provide quality ante and post natal care for 82,000 women at some 30 to 50 per cent of the market rate through specialisation in maternal healthcare, optimal use of resources and cost-sharing of ambulances, laboratories and pharmacies. In doing this, it will also help to build capacity in the health system by employing more than four thousand doctors, nurses and outreach workers.

Then there is Unilever, which has equipped more than 25,000 women known as Shakti entrepreneurs in India and Bangladesh to sell products such as toothpaste or tea to people living in hard-to-reach areas – in turn, allowing them to afford healthcare for their families and schooling for their children.

And Thomson Reuters, which has developed a text-messaging service that provides up to a quarter of a million Indian farmers with access to information that will improve yields and increase incomes across the agricultural industry.

These businesses are prime examples of innovation in action and exactly the sort of thing the new private sector department will champion.

We want to do more work with companies like this. There are already some exciting examples of collaboration between DFID and businesses which have led to the harnessing of technology and business innovation for development goals.

Advance Market Commitments have helped incentivise investment by major pharmaceutical firms who might otherwise have steered clear from costly research and development on products much needed in the developing world. By working with the Gates Foundation and others, DFID has helped to create an international market for a vaccine against pneumococcal diseases – amongst the biggest child killers in the developing world.

And let us consider the massive success of M-PESA, the result of a collaboration which saw DFID seed-funding some early product development by Vodafone. Thanks to this partnership a simple but game-changing product – a mobile-phone based money transfer service – has succeeded in allowing millions of the country's very poorest people to engage in the economy in ways they've never done before. The number of Kenyan adults with access to financial services rocketed by nearly ten million in just three years.

Now, building on this success, Vodafone and the local Equity Bank have launched M-KESHO, a facility that is helping people to open savings accounts for the first time in their lives. This has inspired similar initiatives – with nearly 70 mobile money platforms across the world. And the M-PESA platform is now being used to pay policemen in Afghanistan. Something so small transforming lives on a massive scale.

And whether in micro-finance, branchless banking, solar energy, or biogas the private sector can be the touchstone for other equally exciting and revolutionary innovations. What will be tomorrow's M-PESA?

It would be remiss of me to talk about private sector innovation without making the point that a successful conclusion to the Doha round of trade talks could transform the economic landscape of the very countries we are all trying to help. We must not lose sight of the fact that Doha was always intended to be a development round, and if successful could bring gains for poor countries which amount to three times the volume of global aid.

Indeed, I hope you will agree that this Government is earning itself something of a reputation as a passionate advocate of free and fair trade. The Prime Minister spoke out forcefully at the G20 in Toronto and will reinforce this point at next month's G20 meeting in Seoul, including the need for G20 countries to do more for the Least Developed.

This Government has consistently pushed in Europe for the extension of GSP + privileges to Pakistan and will continue to do so. And, following the devastating floods that hit that country in August, it was our Prime Minister who helped secure agreement for the EU to put in place an immediate reduction in tariffs on goods imported from Pakistan. This measure will provide Pakistan and its people with a vital window in which to rebuild its economy.

And in Africa, where growth and poverty reduction prospects are constrained because of the high costs of trading, we have helped to set up one-stop border posts and have promised to support the proposed Pan African Free Trade Area across the continent.

It is also worth remembering that developing countries represent a huge market that richer economies can tap into, something described by the author and management guru, C.K. Prahalad as the "the bottom of the pyramid". Open markets are a two-way street that can therefore benefit British businesses as well as bringing much needed revenue, product choice, technology, services and cheaper goods to people in developing countries.

I turn now, Ladies and Gentlemen, to the third and final issue I would like to address today: CDC. Founded in 1948 and formerly known as the Commonwealth Development Corporation, CDC is the Government's development investment vehicle that – if we get it right – should be a vital ingredient in the work on wealth creation that I have discussed today.

CDC has the potential to be the jewel in the crown of the UK's support to the private sector in developing countries. But it has lost its way.

CDC has come on a journey. In its first phase, when its expertise was more developmentally than financially focused, its record of achieving investment returns was at best uneven and its stewardship of public money sometimes seriously deficient. In its second phase the balance has tipped too far the other way. If CDC only does what the private financial sector can do, then what is its raison d'être?

The answer is that CDC needs to reinvigorate its development DNA, marrying this together with business know-how and financial discipline. Of course, profitability is important, it is CDC's profitability that has enabled it to keep investing hundreds of millions of pounds without receiving a penny of tax-payers' money since 1995. And CDC should look to invest in enterprises that can be profitable. It is only when businesses are profitable that they will be sustainable beyond aid, and continue to generate incomes and jobs and taxes when development agencies have moved on. But CDC must rebalance; it must strive towards both development and financial gains.

In its current configuration as a Fund of Funds CDC has, in some ways, been a remarkable success. In terms of financial performance we should applaud the achievement of turning £1 billion into £2.5 billon since 2004.

In turning this profit, it has lately become the target of fierce criticism for enriching its executives – and directing its investment activities at opportunities which were already financeable by the private sector. It is important to keep a sense of proportion in all of this. The fact that China, India and Africa can now attract private equity capital in ever-growing amounts should be a source of pleasure and vindication to all those who believe in the power of the private sector. Memories can be short when it comes to recalling how difficult and unlikely some of this seemed 10 or even 5 years ago.

And if some of CDC's investments have been directed at opportunities which could have attracted capital elsewhere, at least their success has given us a substantially enhanced pool of capital to direct at the smaller group of countries on which this very economic success now allows us to concentrate.

Nevertheless the stinging attacks directed at CDC are not without justification. In its current form it was poorly conceived and was left largely undirected by Government. It became less directly engaged in serving the needs of development. The last government announced its privatisation without understanding either the difficulty of executing such a strategy or its likely consequences.

So when it was rebuffed by the markets it resorted to the expedient of keeping the capital in public ownership whilst privatising the management. The consequences were inevitable: using public capital CDC pursued the narrowly-defined private sector goals for which it was incentivised, and this meant the greatest return for the least risk. This was hardly likely to be consistent with concentrating its efforts in the regions of greatest development need and it was not.

Worse, the private equity Fund of Funds structure has sometimes locked it in to the pursuit of investment opportunities where its capital is not needed.

Not only is this a wasted opportunity; it is also a waste of spirit, of motivation and of a 50-year tradition of public service motivated by the desire to do something good for others and to create a world-leading development institution of which the British people could be proud. It would be unfair of me to say that this old spirit of CDC has been lost entirely. It is still there in the halls of CDC. But it has been substantially weakened through the 100% reliance on outside Fund managers.

So - the current approach needs a major overhaul. CDC should provide pound for pound the most effective development effort in the world. We have to understand where the money is going, know why we have chosen to invest it in that way and have effective mechanisms to monitor whether it had the result we intended. We need to see a radical change in the way CDC operates, in the instruments it offers and in its internal management structure.

In my statement to the House of Commons this morning I said that the Government will reconfigure CDC. We will create a revitalised CDC with a great deal more clarity and ambition over what it does and where it works.

Specifically, I shall be proposing that CDC reduce new commitments to future third party Funds and consider the benefits of liquidating some of its existing investment where this can be done on attractive terms. I do not propose that we end commitments to new third party Funds since they can be the most appropriate way to mobilise funding in some countries and for some investment purposes. They can also be effective at mobilising third party capital alongside ours and I do not discount the value of the demonstration effect where they genuinely open new markets to private sector investment. But the Fund of Funds model should make up no more than a part of a new, broader and more actively managed portfolio.

CDC should regain its power to make investments directly in target markets. I envisage that, at least to start with, this would be done through co-investment with other sources of capital where, by doing so, CDC could make possible desirable investments which could not otherwise be made. Its criteria for such investments in terms of geography, sector or purpose could be published and investors in qualifying projects could approach CDC for support. Such investors might be private equity investors, possibly but not necessarily, those with whom CDC is already invested, struggling to find capital for a desirable qualifying project. They could also be local investors, the World Bank's International Finance Corporation or other development agencies. It is too big a step to move in one go from where we are now to a fully fledged investment operation managing investments on its own. But I want CDC to start down the road to making its own investment decisions.

In addition to regaining some investment control, CDC should be encouraged to participate through a wider range of vehicles. I should like it to be able to invest in debt instruments and provide guarantees. Greater flexibility will enable it to build a more diversified portfolio in terms of risk, maturity and liquidity. Debt instruments and guarantees as part of its offering could make it a more flexible and useful partner to the providers of equity for appropriate projects in the poorest parts of the world.

I should like CDC to develop a more active approach to portfolio management. Its purpose is to invest in targeted countries or sectors where capital is otherwise not available – to provide patient capital to finance and kick-start private investment in the most difficult regions - not the most immediately desirable. There is no reason why it should stay around when other capital has become available. CDC has received much criticism for finding itself invested in projects and places for which abundant private sector capital is now available. This is partly the result of its 100% commitment to an inflexible private equity Fund of Funds model but to be fair it is partly a result of the success of that very model. Where success has been achieved, however, we need at least to try to find liquidity for our investments so that the capital can be recycled much more quickly to new targets.

I should also like CDC to develop more financial firepower. The illiquidity of its investments and its considerable uncalled commitments to existing Funds means that it will take a long time to free up capital for more active and direct investment. I would therefore like CDC to regain its power to borrow. This must be constrained within prudent limits but the ability to do so will give us the power to move more quickly and more effectively.

And in all it does I shall continue to expect CDC to show that it is improving the way in which firms in the poorest countries operate – and that CDC monitors and demands improvements in the conditions under which people work. I also expect CDC to demand more effective treatment of environmental issues, more transparency and a rigorous approach to corruption.

Ladies and Gentlemen, if we make these reforms, CDC will become a distinctive, innovative and differentiated development finance institution – with clearly measurable development impact and additionality, and a new commitment targeted throughout Sub-Saharan Africa and the poorer parts of Asia. I want CDC to be more focused on the poorest countries than any other DFI, doing the hardest things in the hardest places. More investment in businesses which would never otherwise have been considered; more capital unlocked to boost the potential of hundreds of new enterprises employing thousands of people and paying their fair share of revenues to their local exchequers. Economic development stimulated and communities empowered. The prize is great indeed.

Now there are some in the audience, I am sure, who at this stage, will expect me to identify today those sectors where I want CDC to focus in future. This is a complex area. Infrastructure and energy are at the top of my list. That family I stayed with in Ethiopia: how much better their lives and their local economy would be if there were a better road network to link their products to markets and electricity allowing them to be productive throughout the day and those long hours of darkness. But I want to listen to a range of views before taking any decisions. The correlation between investment and poverty-reduction is not straight forward.

So, from NGOs to business, from Oxfam to Lazard, we welcome your views. Views on which sectors CDC should focus in order to generate the highest wealth creation impact for the poor. I have asked CDC and DFID to commission independent studies, the findings of which will be made public through DFID's website. The Department will also be launching a consultation, outline details of which will be available online tomorrow. I will listen and then make further announcements early next year. CDC will reflect the necessary changes in the business plan which they will publish in the spring.

Regaining power over the investment of capital needs to be staged carefully and will need resources of human capital additional to the often highly-committed and dedicated people working at CDC at the moment.

I want people to be proud of working for CDC, to see it as a badge of honour. I want CDC to regain its identity, its spirit and its energy – to rediscover its developmental DNA. I want it to inspire at home and abroad as our repository of knowledge of how to make development investing work.

CDC must attract people of the highest calibre, people who are passionate about development investment and whose expertise is rewarded by remuneration that is fair and appropriate – but not excessive. So as part of the period of consultation, I will consult on what that remuneration structure should be.

Let me be clear about this: I do believe that there is a willingness on the part of many qualified people to come and engage in such a vital and exciting enterprise without the need for excessive financial incentives. I want to appeal to people who are motivated by something other than money, something that our generations for the first time have the ability to do – to drive sustainable growth and development and help people lift themselves out of poverty. They may be young, brilliant and determined to save the world. Or they may be older and experienced, successful and less interested in their own financial reward, seeking instead to leave their footprint in the sand of a truly noble endeavour. We intend to set about the business of mobilising such people and supporting them in every way we can to build an enterprise and a success of which Britain can be proud.

Conclusion

Ladies and Gentlemen, I have set out this evening my vision for a world where development is embedded through inclusive economic growth, where wealth creation is the route out of poverty and where the private sector is the catalyst.

I want to say to you publicly, the leaders of British business, that you have an incredibly important role to play in combating global poverty. We're all in this together. I look forward to working with you.