

# 10 List of recommendations

The recommendations made throughout the report are reproduced in this chapter. Those in bold type should be given priority.

<i>Recommendation no</i>		<i>Paragraph no</i>
<b>Organisation and structure</b>		
1	Arrangements should be introduced as soon as practicable for Board members, other than the Chairman and Deputy Chairman, to be remunerated on the basis of devoting not less than two days a month on average to CDC business.	3.55
2	The Board should proceed as proposed with the early appointment of an Audit Committee. The Committee should be given, as a minimum, the duties listed in paragraph 3.5.	
3	The Secretary of State should continue to appoint the majority of the Board, including the Chairman and Deputy Chairman, as non-executive members, but should consider introducing legislation to give those members power to appoint to the Board a limited number of senior executives including the Chief Executive.	
4	Early in 1993 CDC should review the duties of the Regional Investment Managers (RIMs) in the light of experience to date. By the end of March 1993 the Chief Executive should put to the Board such proposals for change as may be necessary to vary or clarify the role of the RIMs and remove ambiguity.	
<b>Strategic and financial framework</b>		
5	In the forthcoming Quinquennial Review, consideration should be given to setting CDC's funding by reference to a percentage of total Aid Programme expenditure, regardless of the expected level of CDC's self-generated funds.	4.134
6	CDC should continue to be required to seek political clearance through the Overseas Development Administration for all proposed investments over a given threshold (currently £2 million), but the further procedure requiring CDC to obtain capital sanction for large investments should be dropped.	
7	In the forthcoming Quinquennial Review, consideration should be given to revising the joint planning arrangements between CDC, ODA and the Treasury in such a way that CDC combines its Corporate Plan and the Planning Framework submission into a single more complete	

annual Corporate Plan which can be used *inter alia* for reviewing CDC's financing requirements.

- 8 Before the 1992 planning round CDC should identify best practice in the use of performance indicators in overseas offices and should then ensure that the next Unit Plans make full use of these indicators and set targets based on them.
- 9 Consideration should be given in the forthcoming Quinquennial Review to resetting the Renewable Natural Resources target to a more realistic level.
- 10 In order to help assess CDC's achievements and to inform its portfolio management, CDC should monitor development benefits by aggregating the Economic Internal Rates of Return (EIRRs) of its projects by country and sector, taking into account when available the results of project evaluations. This practice should be adopted by the end of June 1992.
- 11 Beginning in the first half of 1993, CDC should publish an annual development report on the actual outputs of the projects in which it has invested, and the expected outputs of new projects which it has approved in the previous 12 months.
- 12 Beginning in the 1992 planning round, CDC should adopt as a target that the level of its reserves should be at least maintained in real sterling terms taking one year with another.
- 13 CDC should once a year calculate the current, and forecast, financial rate of return for each country portfolio, or where this is not meaningful, for the respective regional portfolio. This practice should be adopted by the end of June 1992.
- 14 **CDC should adopt a policy of charging market rates of interest, however these can best be determined in the circumstances of each project. This policy should be promulgated to CDC staff with appropriate guidance by the end of June 1992 for implementation in respect of projects coming forward after that date.**
- 15 **CDC should be allowed to borrow in foreign currencies from commercial sources.**
- 16 **Consideration should be given in the forthcoming Quinquennial Review to establishing CDC as a Government-owned equity-based corporation by replacing all or part of its Government loans with Public Dividend Capital, so that CDC has an equity base from which to grow. Consideration should also be given to the introduction in the longer term of private capital to release Government funds and to enable CDC to develop further with finance from the capital markets.**
- 17 **By the end of December 1992 the constraints on CDC's liquidity should be eased by:**
  - (a) a doubling of the permitted cash balance at 31 March to £60 million, this limit to be increased annually thereafter in proportion to the growth in CDC's disbursements; and

**(b) a doubling of the forecast cash threshold for draw-downs from ODA to £30 million.**

- 18 The forthcoming Quinquennial Review should reconsider the arguments for exemption of CDC from United Kingdom Corporation Tax as long as it remains within the public sector.

**Selection of projects for investment**

- 19 CDC should by the end of September 1992 include in its Guidelines procedures for the preliminary assessment of projects. In their bi-monthly reports the overseas Representatives should record the number and brief details of proposals received in the period covered by the report and set out their reasons for deciding not to proceed with particular proposals. A paper should be prepared annually for the Board reporting on the numbers of proposals being turned down by overseas offices and the reasons for their being turned down, and recommending whether any revised guidance should be given to Representatives on this issue. 5.128
- 20 CDC's recently adopted policy of carrying out a preliminary calculation of the development benefits of projects at the Clearance In Principle (CIP) stage, in those cases where there is doubt about the extent of the project's development value, should be written into its Guidelines by the end of June 1992.
- 21 With effect from the end of June 1992 CDC should produce a formal appraisal report for each proposed investment of £1 million or more before the paper seeking project approval is submitted to the General Management Board.
- 22 **With effect from the end of June 1992 CDC should only approve projects where a Financial Internal Rate of Return (FIRR) and an EIRR have been calculated, except in the case of financial intermediaries, projects where CDC changes its funding contribution but there is no change in the project cost, and projects where CDC considers itself obliged to make a supplementary investment to protect an existing investment. In the case of projects in the housing finance sector, CDC should calculate an FIRR and an EIRR for the underlying housing project.**
- 23 With effect from the end of June 1992 CDC should in principle seek to ensure that any financial intermediary in which it invests adopts an approach, in respect of the calculation of FIRRs and EIRRs, consistent with that which we recommend for CDC. Any significant departure from this approach should be clearly identified and justified in the submission seeking Board approval.
- 24 For future project approvals (ie for projects which have not received CIP by the end of June 1992) CDC should adopt country-specific FIRR and EIRR thresholds which approximate to the opportunity cost of capital in the country concerned.
- 25 **With effect from the end of June 1992 CDC should generally approve projects only if they meet the specified rate of return thresholds. In the case of exceptions:**
- (a) where the EIRR falls below the threshold, CDC should**

identify the additional benefits (ie those not included in the EIRR calculation) under the three headings used in its Guidelines (indirect economic, social and environmental effects) which it considers justify the investment; and

(b) where the FIRR falls below the threshold, CDC should identify the non-quantifiable benefits which it considers justify the investment.

26 **If CDC cannot satisfy itself that the social and environmental impact of a project will be acceptable, and that CDC will have adequate influence to ensure that it remains so, it should decide not to invest. CDC's Guidelines should be amended by the end of September 1992 to set out this policy in more specific terms.**

27 By the end of 1992 CDC should set up procedures to check regularly that its projects are being operated in accordance with such guidelines as the World Bank has promulgated on social and environmental matters. The same approach should be adopted to any different guidelines which, as a result of the review on which it has embarked, CDC decides to use in preference to those of the World Bank.

28 **With effect from the end of June 1992 all CDC appraisals, feasibility studies and reappraisals should include a section in which the question of risk is addressed in respect of each of the main factors and assumptions, including political ones. The section should include sensitivity analysis on both individual and plausible combinations of variables and alternative scenarios that are clearly related to the discussion of risk.**

29 CDC's normal means of investing in smaller projects should be via financial intermediaries. CDC should give further consideration to devising a simpler procedure for the appraisal of smaller projects in the few cases where direct investment is justified.

### **Managed Projects**

30 CDC should, in time for use in the 1992 planning round, define the criteria according to which it decides whether or not to manage a project and the point at which this decision is to be taken. The definition should include both the circumstances in which it will manage, and those in which it will not manage, a project. 6.23

31 CDC's current review of reporting methods and systems should lead, in time for use in the 1992 planning round, to the definition of a standard form or forms for the corporate plans of Managed Projects.

### **Portfolio control and project evaluation**

32 By the end of 1992 Finance Department should have begun systematically to scrutinise key financial indicators across the whole of CDC's portfolio and to monitor the timeliness of reporting. It should feed back the results to the Portfolio Management Committee and to the RIMs and report on a regular basis to the Board. 7.68

33 Portfolio Management Department should provide further guidance to overseas offices and RIMs by the end of August 1992 on ways of identifying additional opportunities for equity realisations, and

Representatives should give further consideration to identifying additional opportunities in the context of drafting the Unit Plans for 1993 to 1997.

34 **CDC should set up a representative programme of evaluations of projects which have been operational for at least three years after final disbursement and which are still part of CDC's portfolio. From the beginning of 1993, the number of evaluations to be carried out each year should be 7.5 per cent of the number of such projects in the portfolio at the start of the year or 15, whichever is the greater. The programme should focus mainly on CDC's investments of £1 million or more. The annual evaluation report to the Board should have an appendix containing the summary, conclusions and recommendations of each individual evaluation report undertaken in the respective annual programme.**

35 With effect from the end of September 1992 CDC should recalculate the FIRR and the EIRR at the end of the disbursement stage of each project for comparison with those calculated in the appraisal or feasibility study, in order to assess the extent of appraisal optimism and draw lessons for future appraisals.

### **Financial and management information**

36 For the 1992 planning round the Management Information Systems Plan should be extended to address medium-term cost and resource issues as a guide to reviewing and where necessary revising current user priorities. 8.41

### **Use of manpower and other assets**

37 Now that the new organisation has had a chance to settle down, the operations of London Office departments and overseas offices should be examined with a view to establishing, for use in the 1992 planning round, quantified relationships between manpower requirements and the level of business activity. 9.35

38 With effect from the end of 1992 job descriptions should form part of the documentation for CDC's annual personnel appraisal procedures for all staff and should be reviewed every two years.

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10 April 1992