CDC
Investment works

# Policy on the payment of taxes and use of offshore financial centres

*April 2017*

## Policy on the payment of taxes and use of offshore financial centres

**1. CDC recognises and supports the rights of governments to tax and respects the tax policies established by governments.**

We require our investee companies to pay the taxes required in the countries in which they operate, and we pay taxes wherever we are liable to pay tax in accordance with applicable law and regulations in such jurisdictions.

**2. CDC's preference is to invest directly into the country or region where an investment is located. CDC uses intermediate jurisdictions only to meet its development priority to mobilise capital into Africa and South Asia, and to protect UK taxpayers' money.**

The desire to invest in countries where CDC can have most impact inevitably directs CDC to invest in countries with weak legal, regulatory and tax systems. CDC welcomes efforts to improve the legal, regulatory and tax systems in these countries; including DFID's support to improve the investment climate in these countries and to support developing country tax authorities to improve their administrative capacity, to raise revenue, and to tackle tax evasion and avoidance. This support includes assistance to implement international tax standards that will help tax authorities to tackle international tax evasion and tax avoidance.

CDC's use of intermediate jurisdictions is motivated only by its key objective of maximising the flow of foreign investment into the countries where it operates and its need to ensure adequate protection of UK taxpayers' money.

In particular, given the weak capacity in some of the countries where CDC invests, the use of intermediate jurisdictions may be necessary to provide straightforward and stable financial, judiciary and legal systems for investment, and thereby further CDC's developmental impact (for instance, by increasing its capacity to mobilise commercial investors and generate additional investment to support further job creation, increase local tax revenues and drive growth). CDC's use of an intermediate jurisdiction will be motivated by these non-tax benefits and never to avoid payment of taxes or to avoid transparency.

CDC undertakes extensive due diligence of its investments, including on whether they pay taxes in compliance with law. CDC's due diligence extends beyond legal requirements. CDC will also satisfy itself that the structure of the transaction in which it invests is not designed for tax evasion or tax abuse.

**3. Where CDC uses an intermediate jurisdiction for the reasons stated above, it promotes tax transparency by using jurisdictions only in line with international standards. Accordingly, CDC will use a jurisdiction only if it is located within CDC's investable universe or is (i) successfully participating in the Global Forum on Transparency and Exchange of Information for Tax Purposes developed by the OECD with G20 countries and (ii) committed to the automatic exchange of tax information.**

(a) CDC will only make new investments through a jurisdiction if:

    (i) the jurisdiction is an eligible country[1] in CDC's investment policy[2]; or

    (ii) the jurisdiction has:

        a. committed to the implementation of the international standard of automatic exchange of information (AEOI),

        *and*

        b. passed its Global Forum phase 1 review and been rated 'Compliant' or 'Largely Compliant' following the completion of its Global Forum phase 2 review.[3]

(b) Only in exceptional circumstances may CDC use an intermediate jurisdiction that otherwise would not be allowed under this policy and then only if, after consideration by the Board of Directors of CDC Group plc, the Board approves such use by making a determination (i) in the case of a new investment, that the use of such jurisdiction is justified by the significant developmental benefits of the investment that cannot realistically be obtained otherwise, or (ii) in the case of an increase in an existing investment that complied, at the time it was made, with CDC's policy on the use of intermediate jurisdictions, that such increase is necessary for the protection of UK taxpayer money.[4]

    CDC will weigh the costs and benefits of using such a jurisdiction (always with a preference not to use such a jurisdiction) and will consider alternative options to avoid investing through such a jurisdiction including the ability for the company to relocate to a different jurisdiction.

    The Board shall immediately report its decision and the reasons therefor to the Department for International Development (DFID).

**4. In recognition that this area continues to evolve, DFID and CDC will monitor developments and review this policy at least annually with a view to remaining consistent with evolving international standards[5] and the best practice of multilateral and bilateral development finance institutions.**

[1] Except in the case of Mauritius, where CDC cannot invest as an intermediate jurisdiction if Mauritius is not compliant with paragraph 3(a)(ii).
[2] This is CDC's core strategy of investing in countries in Africa and South Asia to support the building of businesses and creating jobs.
[3] CDC will apply the Global Forum standard as it evolves. For example, in addition to tax transparency, the Global Forum plans to include in its review of jurisdictions an assessment of their international beneficial ownership standards. The second round of peer reviews incorporating this standard is expected to be conducted from 2016-2020.
[4] This provision is necessary to avoid, for example, other investors diluting CDC's shareholding in a case because it can no longer invest through a jurisdiction.
[5] Including, for example, those related to non-cooperative jurisdictions with respect to tax transparency being developed by the OECD and G20, who will prepare a list of such jurisdictions by the 2017 G20 Leaders' Summit. The criteria cover Global Forum compliance, AEOI standards, as well as being a party to the multilateral Convention for Mutual Administrative Assistance for Tax Matters. http://www.oecd.org/tax/oecd-secretary-general-tax-report-g20-leaders-september-2016.pdf

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