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British International Investment: Aid and trade

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Summary

In April 2022, the UK Government relaunched the UK's development finance institution, previously named the Commonwealth Development Corporation (CDC), as British International Investment (BII), with a new strategy.

The Government intends for the BII to form part of a "network of liberty" that brings more countries into the "orbit" of free-market economies and act as a competitor to Chinese investments.

As a development finance institution, the BII uses UK aid funding and the BII's existing assets to invest in businesses and programmes in low- and lower-middle income countries. Its investments are intended to generate a return.

This briefing sets out what development finance institutions are, funding the CDC/BII has received, its strategic objectives and how these are intended to complement UK foreign policy aims. It also assesses the BII's potential impact on development and transparency in its work.

What are development finance institutions?

Development finance institutions (DFIs) have the primary aim of creating jobs and increasing economic opportunity and thereby contributing to poverty reduction. They are usually majority-owned by national governments or international organisations like the World Bank.

DFIs are becoming an increasingly important source of development finance. Based on a survey of 30 institutions, annual investments by DFIs are estimated to have risen from US$12 billion in 2000 to US$87 billion in 2017. As their investments grow, they are more able to self-fund their activities.

What funding has the CDC/BII received?

From 1999 to 2015 the CDC was self-funding, meaning it used its assets and investment returns to fund its investments. From 2016/17 to 2021/22, the UK Government planned to inject around £3.6 billion into the CDC. These capital investments represented around 3% of the annual budgets of the then Department for International Development.

These capital injections are counted as Official Development Assistance (ODA) (link opens PDF) for the purposes of aid spending and meeting the UK's 0.7% aid target (currently at around 0.5%).

What are the BII's priorities?

The BII's new strategy runs from 2022 to 2026. It has three priorities: productive development (eg, job creation), sustainable development (helping countries respond to climate change) and inclusive development (promoting gender equality and alleviating poverty).

How does the BII support the UK's foreign policy?

The BII is operationally independent from the Government in its investment decisions. However, the BII can be seen as supporting several of the UK's foreign policy objectives (this is not exhaustive):

1. **Competing with China to deliver investment** in Africa and Asia. China's foreign lending is criticised for its high interest rates.
2. **Increasing the UK's engagement in the Indo-Pacific as well as Africa** to address climate change, promote trade, and address poverty.
3. **Providing climate finance** to help countries adapt to climate change and mitigate its impact. This may focus on lower-middle income countries, where emissions are rising faster than in low-income countries.
4. Supporting the **empowerment of women and girls**, by increasing their economic security.

Did the CDC contribute to development goals?

Historically, CDC investments tended to focus more on stable and middle-income countries. In 2011, 25% of its portfolio was in fragile and conflict-affected states. This grew to 41% by 2017 (opens PDF).

In 2016, the CDC was criticised by the National Audit Office (NAO) for insufficiently demonstrating it made a "lasting difference" to the world's poorest. In 2021, the Independent Commission for Aid Impact (ICAI) judged the CDC had made progress, noting the new Government-CDC evaluations of its the CDC's work.

The ICAI has found a lack of evidence that DFIs have had a significant impact on poverty reduction. In 2019, it judged there were "mixed levels of engagement" in reaching the poorest people but noted improvements by 2021.

The CDC's profit margin was also historically high. In 2017, the NAO said that while the financial target for the CDC's portfolio return was set at 3.5% in 2012, CDC returns averaged 10.3% since then.

In 2022, the International Development Committee launched an inquiry into the effectiveness of aid spent via the BII.

How transparent and accountable is the BII?

The Foreign, Commonwealth and Development Office is the sole shareholder and owner of BII. It has oversight through shareholder meetings and other engagements. It can also attach conditions to any capital funding.

As an organisation focused on development, the BII is accountable to the UK's ICAI, the Commons International Development Committee, and the NAO.

The BII publishes a list of its investments on its website.

1 Background: Development finance institutions

1.1 What are they?

Development finance institutions (DFIs) invest in private sector projects in low- and middle- income countries with the primary aim of creating jobs and increasing economic opportunity, contributing to poverty reduction.

They are usually majority-owned by national governments. While governments may set their overall strategic objectives, DFIs work autonomously to make investment decisions. Some DFIs are also owned and operated by international organisations like the World Bank.

DFI investments are usually intended to generate a degree of financial return. Investments can take the form of loans, investing equity (like buying shares), or participating in wider commercial funds.

Because they are part-funded by national governments or international banks, DFIs are often able to more easily raise money on international markets and provide financing (such as loans) at favourable and discounted rates.[1]

The UK's DFI was previously known as the Commonwealth Development Corporation (CDC). It has been operating since 1948. In April 2022, it was relaunched as British International Investment (BII).[2]

1.2 How important are DFIs to development?

Based on a survey of 30 institutions, annual investments by DFIs are estimated to have risen from US$12 billion in 2000 to US$87 billion in 2017. This is primarily driven by the re-investment of their profits and growing capital investments from sponsoring governments and institutions.[3]

1 Organisation for Economic Cooperation and Development (OECD), Development finance institutions and private sector development, accessed 26 May 2022

2 British International Investment (BII), Our history, accessed 26 May 2022

3 Center for Strategic & International Studies, DFI: Plateaued growth, increasing need, February 2019, p2

DFIs are seen as important to supporting:

- **The private sectors of low- and lower-middle income countries** to create jobs and new markets, supporting tax revenues and trade.
- **Economic growth**, which is linked to poverty reduction.
- The **mobilisation of capital and finance** for some sectors and countries that traditional investors are unwilling to invest in. This hesitancy is often related to the perceived high level of risk of these markets.[4]

Due to the range of their investments, DFIs are may be able to contribute to the achievement of several of the UN's sustainable development goals (SDGs). These are meant to be achieved by 2030 and include:

- Goal 1: Ending poverty in all its forms
- Goal 5: Ending discrimination against women and girls to achieve gender equality
- Goal 7: Affordable and clean energy to improve access and protect the environment
- Goal 8: Promoting sustained, inclusive, and sustainable economic growth, and full and productive employment
- Goal 13: Climate action, such as supporting regions vulnerable to the effects of climate change.[5]

Before the Covid-19 pandemic, there was an estimated annual US$2.5 trillion funding gap for the SDGs in developing countries, according to the Organisation for Economic Cooperation and Development (OECD).[6] DFIs could have a role to play in closing it.

General reading on DFIs

- Overseas Development Institute, Impact of DFIs on sustainable development, September 2019. Essays on the contribution of DFIs towards the SDGs, especially employment, clean energy, and climate change.
- Center for Strategic & International Studies, DFIs: Plateaued growth, increasing need, February 2019. This charts the funding changes in DFIs since 2000.

[4] International Development Committee, The future of CDC, 2011, HC 607, 2010-11, paras 5-7

[5] UN Development Programme, The SDGs in action, accessed 26 May 2022

[6] OECD, Global outlook on financing for sustainable development 2021 [...], November 2020, 'Overview,' accessed 26 May 2022

- The above updates the earlier report DFIs come of age, October 2016. This explores the greater role DFIs could play in the achievement of the sustainable development goals.
- Department for International Development, The impact of DFIs: Rapid evidence assessment, June 2019. This assesses the impact of DFIs on incomes, access to goods and services, and on poverty, gender, youth, and quality jobs. It concludes that the limited body of evidence on DFIs showed no impact on poverty at the national level but there is a strong body of evidence suggesting they create jobs.

2 Funding the CDC/BII

2.1 Does DFI finance form part of the aid budget?

The Organization for Economic Cooperation and Development (OECD) monitors aid spending against internationally agreed measures, which the UK adheres to.

Under OECD rules, Official Development Assistance (ODA) is aid that is intended to promote the economic welfare and development of developing countries.[7]

In the UK, the Government funds the CDC/BII through capital injections. These are included as ODA at their face-value in the year they are made (if the funds are spent in eligible developing countries).[8]

In addition to the OECD rules, under the International Development Act 2002, as amended, UK development assistance must be provided with the aim of reducing poverty and reducing inequality between persons of a different gender.[9]

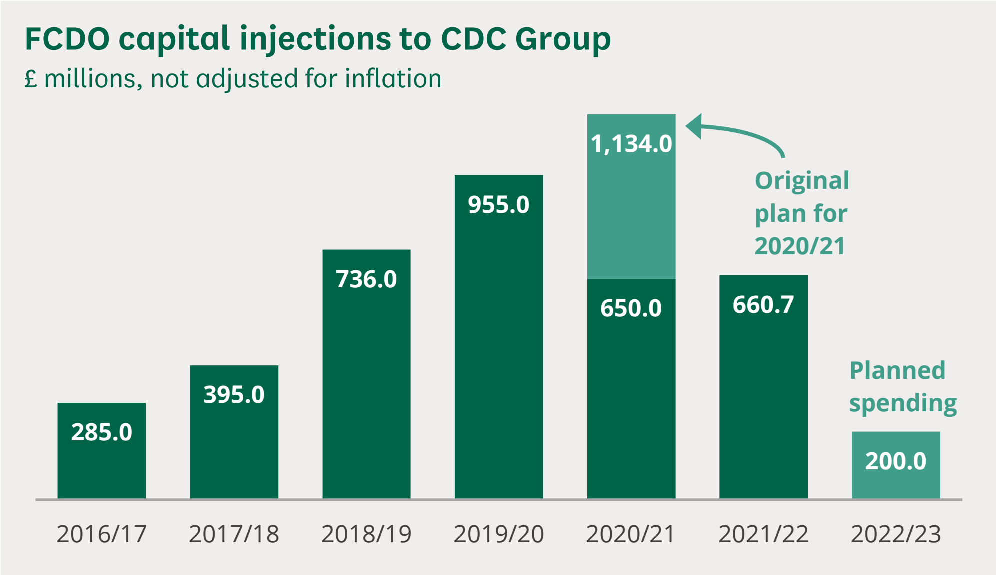
The CDC/BII's investment policy states it will take the actions required to remain an ODA-eligible institution.[10]

2.2 How much capital investment did the Government provide to CDC?

Prior to 2015, the last cash injection into the CDC by the UK Government was in 1999. For this period, the CDC self-financed its work by reinvesting returns from its portfolio into new investments.[11]

The amount of ODA injected into CDC by the Government since 2016/17 is shown in the chart below.

7 OECD, ODA, accessed 26 May 2022
8 Independent Commission for Aid Impact, CDC's investments in low-income and fragile states (PDF), May 2018, page 1, footnote 12
9 International Development Act 2002, Section 1, as amended.
10 BII, Investment policy for the period 1 January 2022 to 31 December 2026 (PDF), November 2021, para B.7.1
11 National Audit Office, DFID: Investing through CDC (PDF), HC 784, 2016-17, 28 November 2016, p47



Source: FCDO, Annual report and accounts 2020/21, 22 September 2021, p305, and 2021/22 edition, p301

The Government initially planned to provide £1,134 million to CDC in 2020/21. It then revised this down by 42% due to aid being re-prioritised and the overall amount being reduced during the Covid-19 pandemic (this was not the same thing as the ODA budget being reduced from 0.7% to 0.5% of gross national income, as this only affected aid budgets from 2021 onwards).[12]

UK Government investments have, on average, represented 3% of Department for International Development (DFID) or Foreign, Commonwealth and Development Office (FCDO) annual spend. However, it has been as high as 8% of their annual budgets.[13]

2.3 Aid spending from 2022/23

Reduced aid budget

The Government has reduced the UK's aid budget from 0.7% of Gross National Income (GNI) to 0.5% of GNI, citing the effects of the Covid-19 pandemic on the public finances and UK economy.

In July 2021, the House of Commons voted in favour of two Treasury tests that must be met before the 0.7% target is restored. In November 2022, Treasury forecasts suggest that spending would not be restored to the 0.7% level until at least 2027/28.[14]

12 PQ 91127 [on CDC: Development Aid], 25 September 2020
13 International Development Committee, Oral evidence: Extreme poverty and the SDGs, HC932, 2021-22, 29 March 2022, Q40
14 Commons Library, The 0.7% aid target, SN 3714

Capital investment for 2022/23

As the CDC/BII is a self-financing institution, the FCDO says additional commitments are not about "ensuring that CDC remains a going concern" but rather a "strategic choice" to scale-up the organisation.[15]

The FCDO Annual Report and Accounts for 2021/22, published in July 2022, includes planned funding for CDC Group (BII) of £200 million in 2022/23.

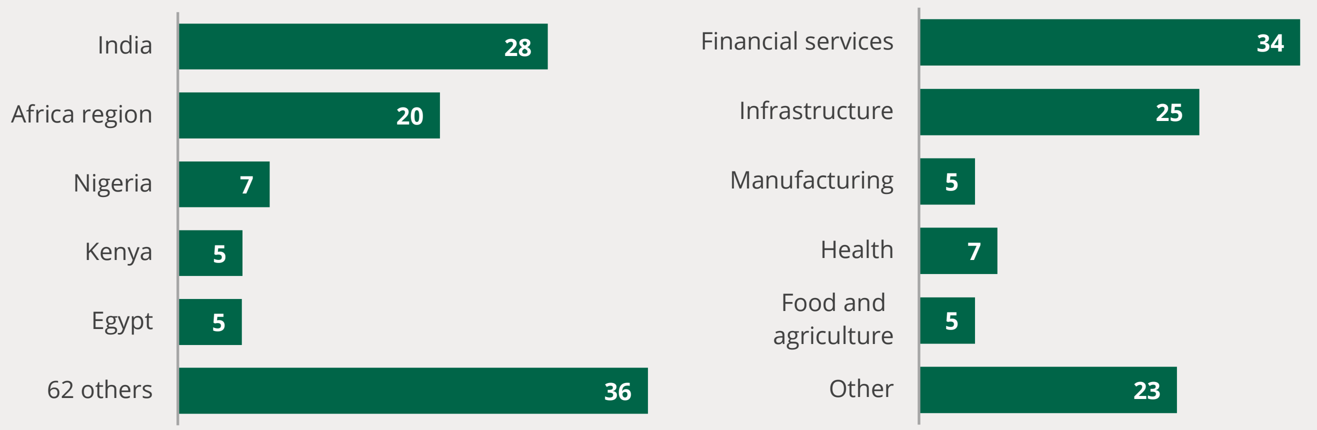
The accounts also include a note saying that funding has been allocated for 2023/24 and 2024/25, but that this is currently part of the broader "centrally managed programmes". We will only know how much has been allocated specifically to BII in each year when the budget for that year is announced as part of the annual Estimates process.[16]

2.4 What investment portfolio does the BII have?

Since 2015, the Government has not published details of CDC's spending alongside other ODA data, instead treating the FCDO/DFID's capital injections as ODA in their own right. However, BII publishes details of its investment portfolio on its website.

CDC's portfolio exposure, by country and sector, 2021

% of total portfolio exposure



Source: BII, Key data, retrieved 22 December 2022

This shows that financial services and infrastructure between them accounted for over half of CDC's investment portfolio in 2021. India was the most significant location for investment, accounting for 28% of the portfolio.

From 2017 to 2021, its total assets increased from £5 billion to £7.7 billion.[17]

15 International Development Committee, Oral evidence: Extreme poverty and the SDGs, HC 932, 2021-22, 29 March 2022, Q82

16 FCDO annual report and accounts 2021 to 2022, 19 July 2022, p301

17 CDC, Investing to transform lives: Five years on (PDF), December 2021, p5; BII, Annual Accounts 2021, p11

3 Summary of the BII strategy, 2022-26

The Government's vision for BII

In April 2022, the CDC was formally renamed and relaunched as British International Investment (BII).

The Government intends for the BII to form part of a "network of liberty" that brings more countries into the "orbit" of free-market economies and acts as a competitor to Chinese investment.[18]

The BII is tasked with several goals, including helping countries respond to climate change, supporting economic growth and trade (both in the UK and abroad), and mobilising more private finance for development. It will focus its investments on Asia, Africa, and the Caribbean.[19]

As an ODA-eligible institution, its funding will have to demonstrate it is tackling poverty, gender inequality, and retaining a focus on low- and lower-middle income countries (see page 10 above). This means despite intentions to focus on parts of Asia and the Caribbean, the BII's investments may be concentrated in lower-income countries in Africa and Asia.

BII's strategy, 2022 to 2026

Under its strategic plan for 2022 to 2026, the BII has three objectives.

1) Productive development: Growing economies and creating jobs

The BII should focus on sectors most in need of development support and capable of creating the greatest number of jobs.

It is also intended to shape markets, by increasing competition and investing in energy, logistics and financial services to lay the foundations for economic activity.[20]

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18 Foreign, Commonwealth and Development Office (FCDO), Truss revamps British development finance to deliver jobs and clean growth, 24 November 2021, accessed 26 May 2022

19 As above

20 BII, Productive, sustainable, and inclusive investment: 2022-26 Technical strategy (PDF), January 2022, p11

2) Sustainable development: Protecting the climate

Investments should help countries adapt to the impact of climate change and develop reliant infrastructure, but also help mitigate climate change through avoiding, reducing, or sequestering greenhouse gas emissions.[21]

3) Inclusive development: Gender, low-income countries, and poverty

The BII will aim to promote gender equality by supporting projects and businesses that empower women, and enhance their economic participation as consumers, employers, and leaders.

The BII undertakes to make investments in poorer and more fragile countries in Asia and Africa a higher priority, though it will also work in the Caribbean.

It will also prioritise investments that create better and more jobs for those in poverty. It will consider the proportion of workers, suppliers and customers that live below the US$5.50 per day purchasing-power-parity poverty line.[22] This definition of poverty is controversial, as it is higher than the US$1.90 definition used to define "extreme poverty" by the World Bank. Page 23, below, provides more on the reasoning for the figure and reaction.

How does this compare to the CDC's strategy?

In its 2017-2022 strategy, the then-CDC had four principles. These were that: investments should be developmental, responsible, innovative, and enduring.

The BII's new priorities effectively give greater weight to aspects previously encompassed by the "development" principle.

The CDC's development principle meant the group would only invest in Africa and South Asia and prioritise investments among poorer groups and in poorer and fragile countries. Support for female empowerment and climate change were given arguably less visibility, being under this principle.

The other principles referred to high environmental and human rights standards, investing in new markets, and expanding the CDC's local presence.[23]

21 BII, Productive, sustainable, and inclusive investment: 2022-26 Technical strategy (PDF), January 2022, p13

22 As above, p15

23 BII, CDC launches new five-year strategy, 6 July 2017, accessed 27 May 2022

4 Does the BII complement the UK's aid and foreign policy goals?

In its strategic review the Government announced a tilt to the Indo-Pacific and Africa—in part to counter Chinese influence in those regions. Its developmental objectives are to help those countries adapt to climate change, reduce gender inequality, and alleviate poverty.[24]

However, the BII will be operationally independent from the FCDO. As such, it is unclear how closely it will follow all these objectives.

4.1 Competing with China in Asia and Africa

China's lending practices

Under China's Belt and Road Initiative (BRI), from 2013 to 2021 the Chinese Government and state-owned entities are estimated to have invested at least US$843 billion in 165 countries, according to the AidData research lab.[25]

The nature of China's funding has raised fears many countries will be indebted to it and become more reliant on Chinese investment and goodwill.

Of the funding surveyed by AidData, there was a ratio of 31 to 1 of loans to grants. These loans often carry a higher interest rate to those of other countries. The researchers found a "typical" Chinese loan had a 4.2% interest rate and a repayment period of ten years. This compared to Germany, France and Japan which provided loans with a 1.1% rate and a 28-year repayment period.

G7 response

In 2021, the G7 announced the Build Back Better World (B3W) partnership. This aims to help meet the US$40 trillion infrastructure needed in low-and middle-income countries, and to compete with China to fund for it.[26]

24 Commons Library, Integrated review, CBP 9182

25 AidData, Chinese development finance, 29 September 2021, accessed 26 May 2022

26 White House, President Biden and G7 leaders launch B3W partnership, 12 June 2021, accessed 26 May 2022

The UK has also backed the G7's aim to invest US$80 billion Africa's private sector from 2021 to 2026, including through the BII.[27]

The G7 is formed of the UK, US, Germany, France, Italy, Canada, Japan, and the EU.

UK Government sees China as a competitor

The Government's 2021 Integrated review of defence, foreign policy, development and security argued that while it will cooperate with China on issues such as climate change, it increasingly sees the country as a "systemic competitor" across the globe:

> [China's] Belt and Road Initiative […] [will] have profound implications worldwide. Open, trading economies like the UK will need to engage with China and remain open to Chinese trade and investment, but they must also protect themselves against practices that have an adverse effect on prosperity and security.[28]

The UK's aims for development assistance are intended to be aligned with the B3W ambition.[29]

The role of the BII as a source of investment

The UK's new aid strategy, published in 2022, makes overseas investment one of its four priorities for aid spending (alongside supporting women and girls, providing humanitarian assistance, and addressing climate change and global health security).

Among the strategy's goals for investment is helping countries avoid unsustainable debts and "bad loans" and being transparent when these loans are made.[30]

This is a likely reference to China's action, but also the increased level of debt distress which arose as a result of the Covid-19 pandemic (see below box).

In 2022, the BII had net assets of £7.5 billion. It plans to make £9 billion of new investments over the next five years.[31]

27 FCDO, G7 partners to invest over US$ 80 billion in Africa's private sector, 14 June 2021, accessed 31 May 2022

28 Cabinet Office, Global Britain in a competitive age, updated 2 July 2021, accessed 26 May 2022, 'Geopolitical and geoeconomic shifts'

29 Lord Ahmad to International Development Committee (PDF), 11 January 2022, p3

30 FCDO, The UK government's strategy for international development, 16 May 2022, accessed 26 May 2022, paras 1-5

31 BII, Productive, sustainable, and inclusive investment: 2022-26 Technical strategy (PDF), January 2022, p43

The Government also expects the BII to attract private funds from capital markets and sovereign wealth funds to scale up private sector contributions for development.[32]

Debt and the Covid-19 pandemic

In response to the Covid-19 pandemic, many countries' government revenues declined, leading them to borrow to maintain public spending.

Of the 73 counties with a Gross National Income (GNI) per person of less than US$1,205, as of November 2021 half were at high risk of debt distress or were already experiencing this. This means they are starting, or have started, debt restructuring, or are accumulating arrears.[33]

The Commons International Development Committee is currently considering debt relief in low-income countries.

4.2 A focus on the Indo-Pacific and Africa

The Government intends for UK aid to be directed to regions where the UK's development, security and economic interests align.

The two regions identified as priorities in its 2021 Integrated Review were Africa, and the Indo-Pacific including South Asia (the latter includes Afghanistan, China, and Indonesia, though they may not be substantial aid recipients).

While the review cites poverty reduction and humanitarian need as the primary reasons for the prioritisation of Africa, reasons for the Indo-Pacific include reinforcing trade links, promoting open societies, and climate change collaboration.

The review states that by 2030, absolute poverty is on track to be "almost eliminated in Asia."[34]

The role of the BII and its investment

The BII is tasked with investing in Asia, Africa, and the Caribbean.[35]

32 FCDO, Truss revamps British development finance institution to deliver jobs and clean growth, 24 November 2021, accessed 26 May 2022

33 World Bank, International debt statistics 2022, November 2021, p27

34 Commons Library, Integrated Review: International development, CBP9208, April 2021, pp8-9

35 BII, Investment policy of the period from 1 January 2022 to 31 December 2016 (PDF), November 2021 pp21-3

One of the uses of funds will be to help reduce carbon emissions. In the Philippines, Indonesia, Vietnam, Cambodia, and Laos, for example, the BII's focus will be on climate investment and renewable energy.[36]

The International Energy Agency estimated that US$1 trillion is needed by 2030 for emerging and developing economies to put them on track to reach net-zero emissions by 2050. Carbon emissions from these economies, mostly in Africa, Asia, and Latin America, are expected to grow substantially over the next two decades as their economies develop.[37]

How might the BII's investments be distributed?

Speaking in 2021, BII officials said it would from 2022:

- Maintain its "historic focus" on Africa, to invest around £7.5 billion in the next five years.
- Scale up in Asia, with plans to invest between £300 million and £500 million from 2022 to 2026.[38]

In its 2022 strategy, the BII notes it has flexibility to invest in ODA-eligible countries in the Caribbean and would "look for opportunities to do so."[39]

In 2020, the CDC invested 68% of the value of its investments made that year in Africa (£827 million), 10% in Asia (£118 million), and 22% shared across Africa and South Asia (£276 million).[40] In 2021, 72% of commitments were made in Africa, 27% in South Asia, and 1% across the two.[41]

The CDC previously invested in China and South America, including Brazil. It has not made investments in these areas since 2012, but they constitute a significant legacy portfolio for BII.[42]

36 BII, Enlarged remit announced for the UK's development finance institution to deliver jobs and clean growth, 25 November 2021, accessed 26 May 2022
37 International Energy Agency, It's time to make clean energy investment in emerging and developing economies a top global priority, 9 June 2021, accessed 26 May 2022
38 Devex, Amid scepticism, CDC Group launches new strategy, 21 December 2021, accessed 30 May 2022
39 BII, Productive, sustainable and inclusive investment, 2022-26 Technical strategy (PDF), January 2022, p34
40 CDC, Rising to the challenge, 2020 (PDF), p29
41 BII, Key data: Our portfolio, accessed 22 December 2022
42 National Audit Office, DFI: Investing through CDC (PDF) HC 784, 2016-17, November 2016, paras 2.4, 2.10

4.3 Climate change adaption and mitigation

UK's prioritisation of climate change

The Government's integrated review says addressing climate change is the UK's "number one international priority." It says climate change is a significant driver of migration, resource insecurity, and poverty.[43]

It also reiterates the UK's commitment for all its Official Development Assistance (ODA), which includes the Government's capital investments in the CDC/BII, to be aligned with the Paris Agreement on climate change.

This means that UK ODA spending must help lower the expected increase in global temperatures, help countries adapt to climate change, and ensure finance supports climate-resilient and low-carbon development.[44]

How green is the CDC/BII?

In 2020, the CDC committed to no longer make investments in coal-fired power plants, coal mining, oil exploration, or heavy-fuel oil power plants. The BII says it will adhere to the commitment.[45]

However, before and after the strategy's publication, the CDC was criticised for investing in fossil fuels. Some of these historic investments remain.[46]

The BII has published figures on the shift in its portfolio from fossil fuels to renewables. In 2019, its renewable energy portfolio was smaller than fossil fuels, at US$806 million versus US$846 million. This was reversed in 2020, with US$955 million in renewables and US$793 in fossil fuels.[47]

The role of the BII

The BII is expected to deliver finance for climate projects like renewable energy, disaster-resilient infrastructure, and sustainable transport.[48]

43 Commons Library, UK aid and climate change, CBP9532, October 2021, pp13,15
44 Commons Library, UK aid and climate change, CBP9532, October 2021, pp13,15
45 CDC, Investing for clean and inclusive growth: Climate change strategy (PDF), 2020, p7
46 International Development Committee, Oral evidence: Extreme poverty and the SDGs, HC 932, 2021-22, 29 March 2022, Q73
47 BII, The transition to net-zero: Explaining our current energy portfolio, undated, accessed 30 May 2022
48 FCDO, Truss revamps British development finance institution to deliver jobs and clean growth, 24 November 2021, accessed 26 May 2022

The BII has set a target for 30% of its new commitments over the next five years to be in climate finance (PDF).[49] This will total around £3 billion.[50]

Climate finance is funding from both private and public funds that is used to help countries mitigate the effect of climate change or adapt to them. This can involve investment in renewables or drought-resistant crops.[51]

The organisation previously committed to decarbonise its portfolio, so it achieves net-zero emissions by 2050. It also pledged to no longer invest in businesses that are not aligned with the Paris Agreement's goals. This includes, for example, coal-fired power plants.[52]

4.4 Empowering women and girls

UK's prioritisation of women and girls

One of the UK's four aid priorities is supporting and empowering women and girls in social, economic, and political spheres. This has a focus on education, but also includes goals to improve economic security for women and girls to address poverty and long-standing inequality.[53]

Role of the BII

The BII intends to target 25% of its new investments under the "2X" criteria. The criteria will help determine which investments will improve women's participation as workers, consumers, entrepreneurs, and leaders.[54]

The "2X" criteria are met if at least one of the following is true of a case: The business was founded by a women or there is 51%+ female ownership, 30% of senior leaders are women, the products and/or services significantly benefit women, or have a 30% to 50% share of women in the workforce (this is not an exhaustive list).[55]

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49 BII, Productive, sustainable and inclusive investment: 2022-26 Technical strategy (PDF), January 2022, p14

50 BII, CDC Group to invest over £3 billion over the next five years to combat the climate emergency, 1 November 2021, accessed 31 May 2022

51 UN Climate Change, Climate finance: The big picture, accessed 26 May 2022

52 BII, CDC Group unveils commitment to become aligned to the Paris Agreement, 2 July 2020, accessed 26 May 2022

53 FCDO, The UK government's strategy for international development, 16 May 2022, accessed 27 May 2022, paras 12, 16

54 BII, Productive, sustainable and inclusive investment: 2022-26 Technical strategy (PDF), January 2022, p15

55 2X challenge, Criteria, accessed 27 May 2022

Further reading on the UK Government's international development strategy

- Commons Library, Integrated Review: International development, CBP9208, 28 April 2022
- FCDO, UK government's strategy for international development, 16 May 2022 and press release summary: Foreign Secretary launches new international development strategy, 16 May 2022
- Bond, The international development strategy: A rapid assessment, 16 May 2022
- Devex, UK development strategy panned as "aid for trade," missed opportunity, 16 May 2022

5 How does the CDC/BII contribute to wider development goals?

The rebranding of the CDC as the BII has raised concerns it will focus less on development, poverty reduction, and wider sustainable development goals (SDGs).[56]

This section assesses the contribution of the CDC/BII to date on achieving the SDGs, in addition to the four UK aid priorities laid out by the Government.

5.1 Focus on low-income and fragile states

One of the tensions in aid spending is that while lower-income countries are among the most vulnerable to climate change, it is middle-income economies that currently have the largest per capita increases in CO2 emissions. This creates a tension in aid spending: Whether to prioritise countries most vulnerable to the effects of climate change, or those that need support to lower their carbon emissions.[57]

The CDC and BII have not been immune from these debates.

Proportion of investments in low-income and fragile states

In 2017, the CDC said 41% of its post-2012 portfolio was invested in fragile and conflict-affected states. This compared to 25% in 2011. It undertook to further strengthen its local presence in these countries.

During the 2010s, the CDC was able to invest in up to 33 countries on the Department of International Development's list of fragile and conflict-affected states. These were mostly in Africa and Asia.[58]

However, research by the UK's Independent Commission for Aid Impact (ICAI) found that, as of March 2017, 95% of the CDC's portfolio was in only ten fragile and conflict-affected countries, and 80% in five of them (Nigeria, Kenya, Pakistan, Côte d'Ivoire and Cameroon).[59]

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56 Devex, UK's CDC Group drops development from name amid overhaul, 25 November 2021
57 Commons Library, UK aid and climate change, CBP 9352, summary
58 CDC, Investing to transform lives: Strategic framework 2017-2021 (PDF), June 2017, p19
59 ICAI, CDC's investments in low-income and fragile states, 26 March 2019, accessed 30 May 2022

BII strategy from 2022

Breakdown of its portfolio, 2020

The BII published a breakdown of its portfolio in 42 countries and regions, as of 2020.

Of the top-ten largest country investments,[60] all but one (Uganda) are not low-income countries. Expanding this to 14 countries where the BII has an investment portfolio over US$100 million, the list of low-income countries increases by one to include Ghana.[61]

Breakdown of its portfolio, 2021

For 2021, the BII has published figures for 67 countries and regions.

Of the top ten-largest country investments in 2021,[62] all are lower-middle income countries apart from South Africa, which is classified as an upper-middle income economy by the World Bank. Expanding the list to the 12 places where the BII has a portfolio over US$100 million adds China (an upper-middle income economy) and Ethiopia (a lower-middle income one).[63]

Future commitments

The BII has committed to assign a higher priority to investments in poorer and more-fragile countries. It has identified 23 countries in Africa and South Asia that have the highest poverty gaps, lower levels of Gross Domestic Product (GDP) per capita or have been classed as "extremely fragile" by the OECD. This includes Nigeria, Kenya, Bangladesh, Pakistan, and Ethiopia.

The BII states a third of its portfolio, by value, is already in fragile states under this definition.

Its new impact score will award higher points to these countries to incentivise BII investment.[64]

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60 The top ten countries for 2020 were: India, Nigeria, Kenya, Cote D'Ivoire, Egypt, South Africa, Morocco, Cameroon, Bangladesh, and Uganda.

61 World Bank, World Bank country and lending groups; BII, Key data 'Country breakdown of our portfolio,' both accessed 30 May 2022

62 In 2021, these were: India, Nigeria, Kenya, Egypt, Morocco, Bangladesh, Pakistan, Ghana, South Africa and Cameroon.

63 BII, Key data 'Country breakdown of our portfolio,' accessed 22 December 2022

64 BII, Productive, sustainable and inclusive investment, 2022-26 Technical strategy (PDF), January 2022, p33

5.2 Poverty reduction

All UK ODA, which includes the capital investments made by the FCDO in the CDC/BII, must be spent with the aim of reducing poverty and improving the economies and welfare of developing countries.

Did the CDC help reduce poverty?

In 2019, the Independent Commission for Aid Impact (ICAI) said there is, in general, "a relative lack of rigorous evidence of DFIs' impact on poverty." It said that most DFIs have typically focused on middle-income countries where investment opportunities are greater.[65]

Under DFID guidelines, the CDC sought to encourage job creation as the primary route out of poverty. However, the ICAI judged there was "mixed levels of engagement" in the CDC in reaching the poorest people.[66]

A DFID-commissioned review in 2019 also found that DFI's impact on poverty reduction is often indirect and not automatic. Where it does have an impact, it's sometimes linked to whether the investment recipients have clients who are from the poorest sections of the population.[67]

Does creating jobs reduce poverty?

The World Bank states: "good jobs are the surest pathway out of poverty."[68] Its analysis of 16 countries in 2013 found that labour income was the most important contributor to changes in poverty. In 14 countries, it was responsible for at least 40% of the reduction in poverty.[69]

A Department for International Development (DFID)-funded study in 2013, in contrast, noted that in fragile states there was more limited evidence for the effect of growing employment on poverty reduction.[70]

What commitments has the BII made?

The new BII strategy for 2022-2026 states having a "positive impact" on low-income populations is one of its priorities. It says investments will create:

65 ICAI, CDC's investments in low-income and fragile states, 26 March 2019, accessed 30 May 2022
66 ICAI, CDC's investments in low-income and fragile states, 26 March 2019, accessed 30 May 2022
67 T. Salamn, Impact of development capital on poverty, 8 August 2019, summary
68 World Bank, Jobs and development, updated 1 March 2021, accessed 31 May 2022
69 World Bank, Is labor income responsible for poverty reduction? A decomposition approach, 2013
70 Overseas Development Institute, What is the evidence on the impact of employment creation on stability and poverty reduction in fragile states (PDF), May 2013, p25

- Better jobs and livelihoods for those in poverty
- Improved goods and services that meet the needs of low-income populations.[71]

The BII's definition of low income has been controversial. It has said this includes suppliers and customers who live below the US$5.50 per day purchasing-power-parity (PPP) poverty line.

PPP essentially estimates what a dollar can buy in different countries.

Commentors have noted the US$5.50 is close to the poverty line in upper-middle income countries, in contrast to the US$1.90 a day for low-income countries. They argue this higher figure has been used to justify the BII's expansion into Asia and the Caribbean.[72]

The BII has defended the higher figure, stating it would "vastly limit" its investment opportunities if it was limited to businesses and companies with 50% or more of their customers in poverty as defined at US$1.90 per day.[73]

The group's Chief Executive, Nick O'Donohoe, argues the BII's work must be considered in the context of the FCDO's wider humanitarian work:

> There is a huge need for support among people who are living on less than $1.90, and the FCDO and the UK do a fantastic job of that, but it is not the only thing that we need to do. We need to help grow these economies, so that more people have a higher standard of living. That has been a precursor to poverty alleviation in every country.[74]

5.3 Investing in sectors with greatest need

The CDC/BII's profit margin

While the BII is a development institution, it also seeks to make a return on most of its investments. These profits are then reinvested. The BII's targeted profit margins influence the type of project and sectors it invests in.

Under the previous funding settlement for the CDC, DFID reduced the profitability target to encourage the CDC to make higher-risk investments and invest in projects with a lower rate of return. It required the CDC to remain

71 BII, Productive, sustainable and inclusive investment, 2022-26 Technical strategy (PDF), January 2022, p15
72 Devex, UK's CDC group drops "development" from name amid overhaul, 25 November 2021, accessed 30 May 2022
73 BII to International Development Committee (PDF), 22 April 2022, p3
74 International Development Committee, Oral evidence: Extreme poverty and the SDGs, HC 932, 2021-22, 29 March 2022, Q73

profitable on a ten-year rolling average and deliver a minimum of 3.5% return on its commercial portfolio.[75]

The BII expects its return to decline in the 2022-26 period, though aims to keep returns above 2% gross and to remain financially sustainable. It says the decline is due to its strategic shift, Covid-19, and the changing economy.[76]

Was the CDC too commercially minded?

In 2021, the campaigning organisation Global Justice Now published a report on the CDC, arguing it was too focused on profit.

It estimated the CDC was making 9.2% profit on its investments, compared to its target of 3.5%.[77] A brief summary of the CDC's investments, such as in private hospitals and schools, was published in The Times.[78]

In 2017, the National Audit Office also found that since the financial target for the CDC's portfolio return was set at 3.5% in 2012, CDC returns averaged 10.3% since then.[79]

Undertakings by BII

Appearing before the International Development Committee in March 2022, BII and FCDO officials said the BII would support areas with low levels of investment. Its Chief Executive, Nick O'Donohoe, used the example of its planned investments to illustrate this:

> Climate is a very good example today. In Africa, there is a lot of debt available for renewables projects—solar and wind. There is not a lot of financing available for things like storage, CSP [Concentrated solar energy], electric vehicles, panel manufacturing, green hydrogen and green ammonia. These things are all in the next wave of development as we address the climate emergency, so the role of CDC is to be at that frontier, and that is what we try to do. We try not to be in the places where Standard Chartered has decided, "This is commercial enough for us."[80]

75 DFID, Business case: Summary sheet (PDF), accessed 30 May 2022, p5
76 BII, Productive, sustainable, and inclusive investment 2022-26 Technical strategy (PDF), January 2022, p43
77 Global Justice Now, Doing more harm than good? Our latest report on the UK's development bank, CDC, 15 February 2020, accessed 30 May 2022
78 The Times, CDC Group using British foreign aid to fund elite hospitals and gyms, 23 January 2021, accessed 30 May 2022
79 NAO, DFID investing through CDC, 784, 2016-17, 28 November 2016 , para 2.9
80 International Development Committee, Oral evidence: Extreme poverty and the SDGs, HC 932, 2021-22, 29 March 2022, Q86

6 Monitoring the BII's work

6.1 Accountability

FCDO accountability

As sole shareholder and owner of BII, the Government can provide oversight of its operations through annual shareholder meetings and other engagements. It also appoints the BII's chair and some directors.[81]

Monitoring the BII's beneficiaries

The BII's policy on responsible investing requires beneficiaries of its investments to adhere to certain environmental, social, and business standards, including on human rights. Beneficiaries must report at least annually to the BII on their adherence to these standards.[82]

Scrutiny by Parliament and auditors

As an ODA-eligible organisation, the BII is accountable to the UK's Independent Commission for Aid Impact, the Commons International Development Committee, and the National Audit Office.

6.2 Transparency

While details of individual UK aid projects are published on the FCDO's Development Tracker website (for their programmes and evaluations) and as part of the FCDO's annual statistics on international development (for spending), only some past CDC activity is reported this way.

In 2011, the CDC said it would join the International Aid Transparency Initiative (IATI), a global initiative to increase the transparency of aid spending.[83] The CDC's most recent list of projects on the IATI's website was updated in 2019.[84] This may reflect the different treatment of CDC spending after 2015, when the

81 BII, Our corporate governance, accessed 26 May 2022
82 BII, Policy on responsible investment (PDF), April 2022, para 4.3 and annex A
83 IATI, CDC become IATI signatory, 1 December 2021, accessed 27 May 2022
84 IATI, CDC Group plc activity file, accessed 27 May 2022

Government treated DFID's entire capital injection to CDC as being ODA, rather than any separate investments.

The BII maintains a "key data" page with headline statistics on its portfolio, the countries it is active in, spending by sectors and products, and its results.[85]

The BII also publishes a list of the investments on its website.

6.3 Monitoring development impacts

In 2016, the National Audit Office published a report on DFID oversight of the CDC and its effectiveness on making a "lasting difference" to the poorest people in the world. It argued that it remained a "significant challenge" for CDC to demonstrate its impact.[86]

DFID committed to increase its monitoring and evaluations of the CDC's development impacts.[87] An evaluation and learning programme between the CDC and DFID/FCDO runs from 2017 to 2023.[88]

In 2021, the ICAI concluded that CDC was now addressing development impact "throughout its investment cycle," citing new monitoring and evaluation mechanisms, and progress on DFID-CDC evaluations.[89]

The new investment strategy for the BII (PDF), in place from 2022, intends to measure the impact score of an investment, including the how far the investment reaches poor and marginalised people. A public annual impact scorecard will be published.[90]

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85 BII, Key data, accessed 27 May 2022

86 NAO, DFID investing through CDC, 784, 2016-17, 28 November 2016

87 DFID, CDC and DFID response to ICAI recommendations on: CDC's investments in low-income and fragile states, 7 May 2019

88 CDC, DFID-CDC Evaluation and learning programme 2017-2023 (PDF), updated January 2019

89 ICAI, ICAI follow-up review of 2019-20 reports, 23 June 2021, 'CDC'

90 BII, Investment policy for the period from 1 January 2022 to 31 December 2026 (PDF), November 2021, pp10, 11, 15

Evaluations of the CDC/BII

- National Audit Office, DFID: Investing through CDC, HC 784, 2016-17, 28 November 2016.

  This report welcomed increased oversight of the CDC by the Government but cited similar issues to the ICAI (below), namely lacking demonstration of its development impacts.

- Independent Commission for Aid Impact (ICAI), CDC's investments in low-income and fragile states, 2019-2021.

  This awarded the CDC an initial score of amber/red on its investments but found "better progress" by 2021.

- International Development Committee, Investment for development: The UK's strategy towards development finance institutions.

  This was launched in November 2022 and intends to assess the effectiveness of aid spending through the BII and the UK's strategy towards development finance more broadly. It is accepting written evidence until 3 February 2023.

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