International Development Committee Inquiry: Investment for Development: the UK's strategy towards development finance institutions

February 2023

Written evidence submitted by the Catholic Agency for Overseas Development (CAFOD)

About CAFOD

1. CAFOD is the official aid agency for the Catholic Church in England and Wales; part of the global Caritas confederation of national organisations, each governed by their national Bishop's conference and linked to national Catholic commissions on health, education, and peace/justice issues. CAFOD partners with diverse local NGOs, including both faith-based groups and others working on human rights and other issues regardless of religion or culture.

Executive Summary

1. British International Investment (BII)[1] is a key mechanism in which the UK Government will deliver its British Investment Partnerships agenda.[2] As of Quarter 1 of 2022, BII's assets were £8.091bn, a doubling since 2015 (£3.901bn).[3] Since 2015 until 2022, BII (formerly CDC) has received £4,132 bn of UK aid money.[4] This means that BII's assets were approximately the same size as entire FCDO aid budget (£8,115bn in 2021/22).[5]

2. Given the diminishing official development assistance (ODA) budget, which is evidenced by significant cuts to programmes relating to healthcare, education, women and girls, and emergency response,[6] as well as increased spending of aid domestically, it's vital that the remaining budget is spent effectively and works to alleviate poverty.

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[1] For ease of reading, we refer to BII throughout this submission, even when references are to CDC
[2] International Development Strategy, (2022). Available here: https://www.gov.uk/government/publications/uk-governments-strategy-for-international-development/the-uk-governments-strategy-for-international-development
[3] FCDO Annual Report and Accounts, (2021 -2022). Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1095304/FCDO_Annual_Report_2021_2022_Accessible_290722.pdf; BII Annual Accounts, 2021. Available here: https://assets.bii.co.uk/wp-content/uploads/2022/07/05074646/BII-Annual-Accounts-2021.pdf
[4] DFID and FCDO Annual Reports, (2015 – 2021). DFID reports available here: https://www.gov.uk/government/collections/dfid-annual-report-2011-2012; FCDO (2021-22) report available here: https://www.gov.uk/government/publications/fcdo-annual-report-and-accounts-2021-to-2022; FCDO (2020-21) report available here: https://www.gov.uk/government/publications/fcdo-annual-report-and-accounts-2020-to-2021
[5] Ibid
[6] National Audit Office, (2022). *Managing reductions in Official Development Assistance spending: FCDO.* Available here: https://www.nao.org.uk/wp-content/uploads/2022/03/Managing-reductions-in-Official-Development-Assistance-spending.pdf

3. However, it is unclear what BII's theory of change is with regards to their mandate of reducing poverty in lower- and middle-income countries. BII also has legacy and ongoing investments in fossil fuel projects and agribusinesses which do not conform to the principles BII has committed to in its Climate Change Strategy, and undermines the Government's legal commitments to reach net zero emissions[7] and "tackling climate change and biodiversity loss its number one international priority."[8]

4. In fact, in 2020 BII reported $910m (around £700m) in direct "carbon-related assets", where investment is exposed to fossil fuels in some way. With the impact of the climate crisis becoming more tangible every day, there can be no space for policies that allow UK aid to be invested in fossil fuels and environmentally destructive programmes, which have no proven poverty alleviation impact.

5. It's also difficult to truly assess BII's investment performance as it does not publish consolidated information on its investments, with around a third of BII's investments going through funds or financial intermediaries. To track this, FCDO is currently spending close to £850,000 to evaluate these investments, which could be better allocated to support vulnerable and marginalised groups in lower- and middle-income countries.

6. However, it is also concerning that the UK Government's International Development Strategy (IDS) seeks to prioritise the UK's economic and geopolitical interests over poverty reduction in lower- and middle-income countries. As BII's sole shareholder, UK Government's choices about where it spends the reduced aid money is crucial as these decisions impact the realities of marginalised and vulnerable groups being supported by UK aid.

Summary of Recommendations

7. As such, CAFOD is concerned about the FCDO's incoherent approach to development, alongside the inconsistencies in BII's overall strategy. As BII's sole shareholder, FCDO can set the agenda and hold the organisation accountable. To strengthen the UK Government's strategy towards its development finance institution, CAFOD recommends that FCDO adopts the following recommendations:

8. **Recommendation 1: The FCDO, as BII's sole shareholder, should set clearer parameters for BII's strategy and provide more effective oversight to ensure that all BII's investments prioritise poverty reduction, tackling climate change and protection of the environment.**

[7] Climate Change Act, (2008). Available here: https://www.legislation.gov.uk/ukpga/2008/27/contents
[8] The Integrated Review, (2021). Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/975077/Global_Britain_in_a_Competitive_Age-_the_Integrated_Review_of_Security__Defence__Development_and_Foreign_Policy.pdf

a. FCDO should immediately update BII's Investment Policy so that **all** its investments are aligned with the International Development Act, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises to ensure that human rights and environmental protection are prioritised.

b. The UK government should not disburse further funds to BII until it implements the necessary changes to ensure all its investments tackle poverty.

9. **Recommendation 2: In the current context of aid cuts to vital humanitarian and development work, BII should not receive planned ODA disbursements until further notice.**
   a. Instead, while UK aid is lower than the commitment of providing 0.7% of GNI to ODA, the FCDO should instruct BII to return some of its profits back to the FCDO so they can be invested in programmes that suffered due to recent aid cuts.

10. **Recommendation 3: FCDO must instruct BII to divest immediately from all fossil fuel investments and to tighten up the "exceptions" in BII's Climate Change Strategy.**

    a. BII should immediately divest its fossil fuel investments, especially in its legacy investments as they are contrary to meeting global ambitions on tackling climate change and limiting temperature changes to 1.5C.

    b. BII should update its Climate Change and Investment Policies to exclude all investments in fossil fuels and to focus investments on green jobs and on companies with a good environmental and human rights track record.

11. **Recommendation 4: FCDO should mandate BII to increase its risk appetite to achieve greater poverty reduction in its investments.**

    a. BII should continue to expand its Catalyst Portfolio and continue investing in renewable energy projects. However, it must prioritise decentralised, renewable energy that will benefit vulnerable and marginalise groups and their access to clean and safe energy.

12. **Recommendation 5: The FCDO must mandate BII to improve its transparency by publishing data on all of its portfolios on a regular basis.**

13. **Recommendation 6: FCDO must instruct BII to massively reduce investments through financial intermediaries** as it cannot have clear oversight of its spending, evidence of poverty reduction or guarantees from intermediaries that money will not be invested in non-compliant sectors.

a. Instead, BII should invest directly in companies with strong human rights and environmental track record.

<u>How does the BII's strategy align with the FCDO's development agenda?</u>

14. As stated in the International Development Strategy, FCDO's development agenda is to support partner countries to "grow their economies sustainably", champion the rights and freedoms of women and girls, provide humanitarian assistance and continue its work on climate change, nature and global health".[9] However, it is important to highlight that the FCDO's development agenda is not fit for purpose because ODA spending has shifted from prioritising poverty reduction and benefits for vulnerable and marginalised groups, to instead prioritising supporting economic growth in markets that would benefit the UK's economic and geopolitical interests.

15. For example, the Government stated in its 2022 International Development Strategy that ODA investments will increasingly shift from multilateral to more bilateral channels as "this will allow FCDO to focus funding on UK priorities and control exactly how taxpayers' money is used to support these."[10]

16. CAFOD has previously outlined in its 2021[11] and 2017[12] IDC inquiry submissions that long term development assistance should be allocated according to the development needs of the countries the UK Government is supporting and should maintain its focus on the poorest and fragile countries and communities, in accordance with the UK's International Development Act (IDA).[13] As a recipient of ODA, BII's strategy must also be aligned with IDA.

17. BII's alignment with the IDA is crucial as it is a key instrument for the UK Government to deliver on its goals of supporting partner countries with sustainable economic development. As the UK's development finance institution, BII says it will continue to deliver investments to a range of

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[9] FCDO, *The UK government's strategy for international development*, Chapter 1, (2022). Available here: https://www.gov.uk/government/publications/uk-governments-strategy-for-international-development/the-uk-governments-strategy-for-international-development#chapter-1-a-new-international-development-strategy

[10] FCDO, *The UK government's strategy for international development*, (2022). Available here: https://www.gov.uk/government/publications/uk-governments-strategy-for-international-development/the-uk-governments-strategy-for-international-development

[11] CAFOD, Submission to International Development Committee: The Future of UK Aid, (2021). Available here: Final_CAFOD_submission_to_IDC_inquiry_on_the_future_of_UK_aid_-_May_2021.pdf (ctfassets.net)

[12] CAFOD, Submission to International Development Committee: Definition and administration of ODA inquiry, (2017). Available here: ODA0008 - Evidence on Definition and administration of ODA (parliament.uk)

[13] International Development Act, (2002). Available here: https://www.legislation.gov.uk/ukpga/2002/1/pdfs/ukpga_20020001_en.pdf

sectors, from renewable energy to agriculture, and across several markets such as Africa, South Asia, Indo-Pacific and the Caribbean.[14]

18. Yet, BII has a track record of consistently not being able to show their poverty reduction (highlighted by a range of actors including scrutiny bodies such as ICAI[15]), and as such, CAFOD is concerned that alignment between BII's strategy and the FCDO's development agenda will have little benefit to vulnerable and marginalised groups in lower- and middle-income countries.

19. Furthermore, it is unclear how BII's approach to investments fulfils their mandate of reducing poverty as BII continues to finance programmes that undermine sustainable development and the UK's global commitments to tackling climate change and protecting nature.

20. For example, analysis from CAFOD and RSPB showed that from 2013-2019, BII and other UK aid-funded institutions such as the Private Infrastructure Development Group (PIDG), invested at least £125.5m of UK aid in Indorama Eleme Fertiliser, a fossil gas-based fertiliser producer based in Nigeria. In the same period, total reported bilateral UK aid to Nigeria for agriculture and rural development was just £26.3m, a fifth of the amount.[16]

BII investments in light of reducing UK ODA spend

21. As of Q1 2022, BII's assets were £8.091bn, a doubling since 2015 (£3.901bn).[17] Since 2015 until 2022, BII has received £4,132bn of UK aid money.[18] This means that BII's assets were approximately the same size as the entire FCDO aid budget (£8,115bn in 2021/22).[19]

22. Previous ODA disbursed to BII was in the context of an aid budget of 0.7% GNI, and a smaller percentage being spent in the UK than at present. In the current context, ODA is around 0.5% GNI, with up to £4bn being spent in the

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14 FCDO, The UK government's strategy for international development, (2022). Available here: https://www.gov.uk/government/publications/uk-governments-strategy-for-international-development/the-uk-governments-strategy-for-international-development

15 ICAI, follow-up review of 2019-20 reports, (2021). Available here: *https://icai.independent.gov.uk/wp-content/uploads/ICAI-follow-up-2019-20-reviews.pdf*

16 CAFOD and RSPB, *Harnessing the potential of agriculture for people and nature: the role of UK aid*, (2021). Available here: CAFOD-RSPB_POLICY-BRIEF_AGRICULTURE-FOR-PEOPLE-AND-NATURE_MAY2021.pdf (ctfassets.net)

17 FCDO, Annual Report and Accounts (2021-22). Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1095304/FCDO_Annual_Report_2021_2022_Accessible_290722.pdf; BII Annual Accounts 2021. Available here: https://assets.bii.co.uk/wp-content/uploads/2022/07/05074646/BII-Annual-Accounts-2021.pdf

18 See DFID and FCDO annual reports

19 FCDO, Annual Report and Accounts P87 (2021-22),. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1095304/FCDO_Annual_Report_2021_2022_Accessible_290722.pdf

UK, much of the increase due to supporting Ukrainian refugees.[20] This remainder of approximately £8bn for spend in poor countries is equivalent to a fall of almost half since 2020.[21]

23. This double whammy of significant aid cuts and of a huge increase of aid money being spent in the UK has seen a slashing of many of the UK's bilateral aid programmes overseas.

24. In 2021, ODA to Africa – where most the world's poorest countries are - fell by biggest percentage of any region– approximately one third (33.8%) – down from £2.561bn in 2020 to £1.727bn in 2021.[22] This is set to be cut further still in 2022/23.

25. These cuts impact the lives of people living in the world's poorest countries, who are doing all that they can to survive in a context of increased climate change impacts, war and rising food and energy prices.

26. It means that the UK has not been able to match previous support to respond to emergency crises or to meet its previous commitments. For example, the current drought in East Africa has been the worst drought in over 40 years, resulting in an entrenched food crisis, yet the UK government has only been able to provide a third as much in financial support in 2022 as it did for the previous crisis in 2017.[23]

27. The UK government has choices about where it spends the reduced aid money – and these choices can have direct impacts on people's lives. As Minister for State, Andrew Mitchell recently said to the IDC: "officials who run these programmes around the world are now on their third lot of cuts. This is to the bilateral programme. [..] They are very harsh indeed. We stopped the pause, as you know, on ODA spend, but these cuts have to be delivered by the end of the financial year and then next year as well. I know that the Committee will be very sympathetic about this, but I want to underline how very difficult this process is."[24]

28. In the context of such drastic cuts, CAFOD recommends that BII receives no further funding, and instead seeks to reinvest some of its investments as

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[20]House of Commons Library, *The UK aid budget and support for refugees in the UK in 2022* (2022). Available here: CBP-9663.pdf (parliament.uk)

[21]FCDO, Statistics on International Development: Final UK Aid Spend 2021 (2021). Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1119765/Statistics-on-International-Development-Final-UK-Aid-Spend-2021.pdf

[22]FCDO, Statistics on International Development: Final UK Aid Spend 2021 (2021). Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1119765/Statistics-on-International-Development-Final-UK-Aid-Spend-2021.pdf

[23] East Africa Cannot Wait Parliamentary Briefing, Action Against Hunger, et al, (2022). Available here: East Africa - parliamentary briefing.pdf

[24] International Development Committee, Oral evidence: Future of UK aid, (2022). Available here: https://committees.parliament.uk/oralevidence/11988/pdf/.

they come to maturity. These investments would count as negative ODA and could increase the UK's ODA spend to tackle poverty in low-income countries, while keeping within the current commitment of ODA at 0.5% GNI.

29. BII should therefore be directed by the UK government to return a percentage of the capital it has recently received from the FCDO over the next 18 months, up to a value of £2.5bn, with the proceeds earmarked for immediate ODA grant spending (including humanitarian response) and used to protect bilateral aid spending from any further cuts.

30. A transfer of £2.5bn from BII to the FCDO's grant aid budget would still leave BII with a higher level of total assets than it had in 2020 and return the ratio of BII's assets to total ODA to closer to its average for 2016-2020 (0.4:1).

31. This transfer can be financed in part through the expedited disinvestment of fossil-fuel related assets (including those not captured in the current fossil fuel and "carbon-related" assets lists), including complete disinvestment from Globeleq (for more details, see below).

Recommendations

32. **Recommendation 1: The FCDO, as BII's sole shareholder, should set clearer parameters for BII's strategy and provide more effective oversight to ensure that all BII's investments prioritise poverty reduction, tackling climate change and protection of the environment.**

    a. FCDO should immediately update BII's Investment Policy so that **all** of its investments are aligned with the International Development Act, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises to ensure that human rights and environmental protection are prioritised.

    b. The UK government should not disburse further funds to BII until it implements the necessary changes to ensure all of its investments tackle poverty.

33. **Recommendation 2: In the current context of aid cuts to vital humanitarian and development work, BII should not receive planned ODA disbursements until further notice.**

    a. Instead, while UK aid is lower than the commitment of providing 0.7% of GNI to ODA, the FCDO should instruct BII to return some of its profits back to the FCDO so they can be invested in programmes that suffered due to recent aid cuts.

What criteria does BII use to determine investment decisions and how are financial returns balanced with achieving impact? What current investments does BII hold?

34. As BII is a key channel for how the UK Government distributes ODA, it is essential that BII uses its investments to benefit the most vulnerable communities in lower income countries. However, as aforementioned, BII still has active investments in fossil-fuel plants and large agribusinesses whose activities have detrimental impacts on the local environment and people. This section will further explore the loopholes that allow BII to continue investing in fossil fuel projects, and how BII can better invest in programmes that maximise poverty reduction.

Current Fossil Fuel Investments

35. We do know that BII has extensive investments in companies and financial intermediaries that directly support coal, oil and gas, which could be up to 20% of the portfolio, as outlined below.

36. For example, the energy company Globeleq[25] is 70% owned by BII and over two thirds of its projects are made up of gas and heavy fuel oil plants.[26] In 2020, BII committed a further £95.6 million but there is no detail on how this money was used. In January 2021, Globeleq acquired gas power plants in Nigeria[27] supplying users such as British American Tobacco (CPGNL Ltd). In addition, BII has $175 million invested in ABSA bank, which we know is actively supporting investments in oil and gas projects across Africa.[28] It also has active investments in coal in India, through GMR Energy, which runs huge coal-powered plants.

37. However, it is difficult to know the exact nature of the current investments as BII does not publish timely information about its projects. For example, BII have not published updated information on their energy investments since 2019, which was made available to CAFOD as a result of written correspondence. At that time, CAFOD calculated that BII held £468m in fossil fuels in 2019.[29] This is largely due to legacy investments - investments made over the past few years where BII capital remains active.[30]

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[25] GOV.UK, company information, Globeleq Africa Holdings Limited. Available here:https://find-and-update.company-information.service.gov.uk/company/FC035192/filing-history

[26] BII, Investments in Globeleq Limited. Available here: https://www.bii.co.uk/en/our-impact/investment/globeleq-limited/

[27]Globeleq, *Globeleq aquires private power generator company in Nigeria*, (2021). Available here: https://www.globeleq.com/blog/globeleq-acquires-private-power-generation-company-in-nigeria/

[28] Monitor, *We have enough money to fund oil investments – Absa*, (2021). Available here: https://www.monitor.co.ug/uganda/business/finance/we-have-enough-money-to-fund-oil-investments-absa--3458306

[29] CAFOD, CDC's energy investments: *building just, green development*, (2020). Available here: CDC_energy_investments_briefing_final_130920.pdf (ctfassets.net)

[30] BII, Annual Accounts, P31, (2021). Available Here https://assets.bii.co.uk/wp-content/uploads/2022/07/05074646/BII-Annual-Accounts-2021.pdf

38. The 2020 BII annual accounts show that BII held $910m in what they call direct "carbon-related assets"[31], where investment is exposed to fossil fuels in some way. This is a broader definition than fossil fuel investments and amounted to a staggering 12.6% of the portfolio. However, this only covered direct funds not the indirect investments, which are approximately a third of BII's portfolio[32], so the actual exposure to fossil fuel investments could be as much as 20% of BII's total portfolio.

39. BII's extensive ongoing exposure to fossil fuels directly undermines the UK government's commitment to net zero and to tackling climate change as the number one foreign international priority outlined in the 2021 Integrated Review.

40. The reason for not reporting on indirect carbon-related assets is that BII do not currently know the amount of money exposed to fossil fuels via indirect investments: "In 2020 and 2021 we were able to tag and calculate our exposure to carbon-related assets via trade and supply chain finance, but data gaps prevented us from evaluating our related exposure via indirect investments in financial institutions."[33]

41. Despite these data gaps, and despite not reporting even carbon-related exposure to direct investments in the 2021 Annual Accounts, BII states that: "our financial exposure to assets vulnerable to transition risks, defined as carbon-related assets, has declined since 2020, driven predominately by a decline in our financial exposure to oil and gas assets through trade and supply chain finance facilities."[34] Furthermore, in oral evidence given to the IDC by BII in 2019, representatives said they would expect their fossil fuel legacy investments to be out of the BII portfolio soon.

42. To know whether BII is divesting from fossil fuel projects and decreasing their exposure, and for effective scrutiny of how much UK aid is currently invested in fossil-fuel related projects, it is vital that BII publish all their energy investments in full, including when BII currently expect all legacy investments in fossil fuels to be wound up.

BII's Climate Change Strategy

43. BII's Climate Change Strategy (CCS) came into effect in 2021. However, through its CCS, BII has reserved the right to continue investing in fossil fuels

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[31] BII, portfolio of energy investments, (2020). Available here: https://assets.bii.co.uk/wp-content/uploads/2022/01/14164001/End-2020-Energy-Portfolio-Disclosure.pdf.
[32] BII, Key Data. Available here: https://www.bii.co.uk/en/our-impact/key-data/
[33] BII, Annual Accounts 2021 (2021). Available Here: https://assets.bii.co.uk/wp-content/uploads/2022/07/05074646/BII-Annual-Accounts-2021.pdf.
[34] BII, Annual Accounts 2021 (2021). Available Here: https://assets.bii.co.uk/wp-content/uploads/2022/07/05074646/BII-Annual-Accounts-2021.pdf.

like gas-fired power stations and gas midstream projects if "they can be considered transitionary investments to net zero."[35] BII maintains that this exception will only apply to investments "if they fulfil the requirements of our emerging guidance tool to demonstrate alignment with countries' pathways to net zero emissions by 2050".[36] These exceptions are detrimental to the UK Government's global ambition to tackle climate change, through the commitments it has made under the Paris Agreement[37], the Glasgow Climate Pact[38] and the Sharm el-Sheikh Implementation Plan[39], and most importantly, provides little benefit to vulnerable and marginalised communities.

44. Instead, decentralised energy investments can effectively lift more people out of energy poverty in a sustainable way.[40] BII has previously invested in decentralised energy, which has had positive impacts on people to increase their income and reduce dependency on polluting kerosene.[41] Through its investments, BII also has potential to achieve multiple objectives, such as creating decent jobs for marginalised women.

45. For example, its investment in Ayana Renewable Power, which is an Indian renewable energy platform, aimed to provide employment training for women in the local area by improving their digital literary, operations and maintenance skills.[42] Rather than investing in polluting fossil fuel plants, BII should invest directly in programmes that are sustainable and benefit local people's livelihoods and development outcomes.

46. Renewable energy investment can also provide more jobs and financial returns than fossil fuels. In the UK Government's response to BEIS' consultation on *Aligning UK international support for the clean energy transition*, it highlighted a model which showed that "$1m in spending

[35] BII, *Investing for clean and inclusive growth.* Available here: https://assets.bii.co.uk/wp-content/uploads/2020/07/01181554/CDC-climate-change-strategy_FINAL-FOR-PUBLICATION-1.pdf
[36] BII, *Investing for clean and inclusive growth,* P35. Available here: https://assets.bii.co.uk/wp-content/uploads/2020/07/01181554/CDC-climate-change-strategy_FINAL-FOR-PUBLICATION-1.pdf
[37] UNFCCC, The Paris Agreement. Available here: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
[38] UN Climate Change Conference UK, The Glasgow Climate Pact, (2021). Available here: https://ukcop26.org/the-glasgow-climate-pact/
[39] UNFCC, Sharm el-Sheikh Implementation Plan, (2022). Available here: https://unfccc.int/sites/default/files/resource/cp2022_L19_adv.pdf
[40] CAFOD, *CDC Leadership in a Just and Green Recovery*, (2020). Available here: https://assets.ctfassets.net/vy3axnuecuwj/cfdea646c92cd23f89a536a9d80455c2b656986684879e67b85776d36631f458/8e5fad76451dc36aa3bbe2b77f000ea0/CDC_leadership_in_a_just_green_recovery__CAFOD__July_2020_.pdf
[41] Ibid.
[42] BII, Ayana Renewable Power. Available here: https://www.bii.co.uk/en/story/ayana-renewable-power/

generates 7.49 full-time jobs in renewables infrastructure, 7.72 in energy efficiency, but only 2.65 in fossil fuels."[43]

Prioritising poverty reduction over financial returns

47. BII should also continue to expand its Catalyst Portfolio as there is a higher probability that these investments will deliver a good balance between financial returns and poverty reduction.[44] BII introduced this portfolio in 2017 with the aim to support nascent sectors in challenging environments, such as in conflict-affected areas. It constitutes around 8% of BII's total investments.[45]

48. Through the Catalyst Portfolio, BII has invested in Gridworks which is a development and investment platform that focusses on transmission, distribution and off-grid electricity in Africa.[46] In Africa, almost 600 million people have no access to electricity. Increased electrification across the continent can help countries to develop green markets that provide jobs for local people, as well as helping to advance countries' transition to a low carbon economic where renewable energy can be supported. However, it is difficult to determine the true benefits that Gridworks has had as there is limited public information on the implementation and impact of BII's investments. This is especially the case when trying to determine the poverty reduction impact of BII's investments in financial institutions because to date, the number of in-depth evaluations of BII's Financial Institutions portfolio remains limited.[47]

49. As a development finance institution, BII should encourage other investors to make similar investments in lower-income and fragile states that will increase people's access to renewable energy and enhance development outcomes. Unpredictable weather patterns because of climate change, coupled with the existing challenges that has been brought by COVID-19 and ongoing conflict, will further reduce financing options of countries, which is why the Catalyst Portfolio is essential. Increased successful case studies of Catalyst investments will help to give confidence to other investments about implementing this approach.

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[43] BEIS, *Aligning UK international support for the clean energy transition, Government Response*, (2021). Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972811/uk-support-clean-energy-transition-consultation-response.pdf

[44] The Independent Commission for Aid Impact, *CDC's Investments in Low-Income and Fragile States, A Performance Review*, (2019). Available here: https://icai.independent.gov.uk/wp-content/uploads/CDC-26.03.19.pdf

[45] BII, Impact Score 2022–26 Strategy Period, (2022). Available here: https://assets.bii.co.uk/wp-content/uploads/2022/02/24121022/British-International-Investment-Impact-Score-2022-26.pdf

[46] BII, Gridworks Development Partners LLP. Available here: https://www.bii.co.uk/en/our-impact/investment/gridworks-development-partners-llp/

[47] DFID, *Evaluating the Impact of CDC's Financial Institutions Portfolio Terms of Reference*, (2020). Available at: https://aidstream.org/files/documents/ToR---CDC-20200925070933.pdf

Making the Investment Policy Fit for Purpose

50. While BII's Investment Committee takes the day-to-day decisions on what investments to proceed with and which ones to discard, it is ultimately the FCDO, as the sole shareholder, who can set the parameters in the Investment Policy that BII uses to identify investments. CAFOD has reviewed BII's 2022-2027 Investment Policy, and it is not sufficiently focused on poverty reduction, protecting the environment and generating decent and green jobs.

51. To improve the current Investment Policy so that it reflects these priorities, FCDO should mandate BII to invest in green sectors that respect human rights and create quality green jobs, especially for marginalised groups. BII should also move towards prioritising investments based on whether they are more likely to enable green goods and services, such as renewable energy, that contribute to meeting climate change targets and to restore ecosystems.[48]

52. CAFOD is also aware that BII adheres to its own Policy of Responsible Investing[49] when it conducts its due diligence before making investment decisions, however BII must be held to a higher standard because it uses ODA. As such, all of BII's due diligence checks must be aligned with the UN Guiding Principles on Business and Human Rights[50] and the OECD Guidelines for Multinational Enterprises[51].

53. To ensure that due diligence is conducted to a high standard, we recommend that the Government imposes a duty on organisations to conduct human rights and environmental due diligence in their domestic and international operations, products and services – including in their supply and value chains, and to hold them accountable if they failed to do so and harm occurs. CAFOD – as part of the Corporate Justice Coalition - is calling for a Business, Human Rights and Environment Act, where companies would have to show that they did all they reasonably could to prevent harm, with similar obligations for public sector bodies including BII.[52]

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[48] CAFOD, *CDC Leadership in a Just and Green Recovery, Deploying Catalytic Capital to Boost Low-Carbon Sectors in Africa and South Asia*, (2020). Available here: https://assets.ctfassets.net/vy3axnuecuwj/cfdea646c92cd23f89a536a9d80455c2b656986684879e67b85776d36631f458/8e5fad76451dc36aa3bbe2b77f000ea0/CDC_leadership_in_a_just_green_recovery__CAFOD__July_2020_.pdf
[49] BII, Policy on Responsible Investing, (2022). Availible here: Summary report (bii.co.uk)
[50] OHCHR, Guiding Principles on Business and Human Rights, (2011). Availible here: https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf
[51] OECD, Guidelines for multinational enterprises. Availible here: https://www.oecd.org/corporate/mne/
[52] Coportate Justice Coalition, Parliamentary Briefing: *A UK 'Business, Human Rights and Environment Act'*, (2022). Availible here: https://corporatejusticecoalition.org/wp-content/uploads/2022/11/CJC-General-Parliamentary-Briefing-2022-FINAL-2.pdf

54. The European Commission presented a proposal for a European Directive on corporate sustainability due diligence in February 2022[53] and it is currently undergoing the ordinary legislative procedure through the European Parliament and the EU Council. The proposals establish obligations for companies in relation to their, actual or potential negative impacts on human rights and the environment that may arise from their own activities, the activities of their subsidiaries and the activities of their business partners in the companies' global value chains, including a civil liability regime.

55. The European Directive would cover UK companies registered in the EU, or UK companies operating in the EU with a net turnover in the European Union in excess of 150 million Euros; or have a turnover in the European Union of more than 40 million Euros, of which half is in one of a broad range of specified sectors, such as minerals, food and agriculture.

Recommendations

56. **Recommendation 3: FCDO must instruct BII to divest immediately from all fossil fuel investments and to tighten up the "exceptions" in BII's Climate Change Strategy.**

    c. BII should immediately divest its fossil fuel investments, especially in its legacy investments as they are contrary to meeting global ambitions on tackling climate change and limiting temperature changes to 1.5C.

    d. BII should update its Climate Change and Investment Policies to exclude all investments in fossil fuels and to focus investments on green jobs and on companies with a good environmental and human rights track record.

57. **Recommendation 4: FCDO should mandate BII to increase its risk appetite to achieve greater poverty reduction in its investments.**

    a. BII should continue to expand its Catalyst Portfolio and continue investing in renewable energy projects. However, it must prioritise decentralised, renewable energy that will benefit vulnerable and marginalise groups and their access to clean and safe energy.

How are the decisions of BII's management scrutinised? What transparency is there over BII's performance monitoring and reporting?

58. As aforementioned, BII's assets have doubled from 2015-2022, meaning that BII's was approximately the same size as entire FCDO aid budget in 2021-22.

[53] European Comission, Corporate sustainability due diligence, (2022). Availible here: https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

Given the recent cuts to ODA and competing demands for a dwindling aid budget, it is vital that BII is transparent over its performance monitoring and reporting.

59. According to the latest figures publicly available, CAFOD estimates that BII has committed over £468 million to companies, banks and managed investment funds that support fossil fuel projects. However, it is hard to know the true figures as BII does not publish consolidated information on its investments, nor have 2021 or 2022 figures been published.[54] Again. This lack of transparency makes it more difficult for BII to be held accountable for the use and impacts of its aid money.

60. Furthermore, around 33% of BII's investments are made through intermediaries,[55] which makes poverty reduction harder to judge. In the Terms of Reference for DFID's wide-ranging 2020 review of CDC's financial investments, it also states that "there typically will be a greater level of access and data in CDC's direct investments than those in funds", and less information and overall control over money that is channelled through intermediaries.[56]

61. FCDO is currently spending close to £850,000 to evaluate these investments[57] which would appear to be a poor use of precious ODA resources, that could be used better elsewhere in the contexts of a diminishing aid budget. Instead of spending money trying to evaluate impacts through opaque financial intermediaries, CAFOD recommends that BII only invests directly in companies which have a proven track record of providing quality jobs for people, in a way that does not harm local nature or the climate. This is more in line with the FCDO's strategy to have stronger oversight of the use and impacts of UK aid at country level.

Recommendations

62. **Recommendation 5: The FCDO must mandate BII to improve its transparency by publishing data on all of its portfolios,** in a timely manner.

63. **Recommendation 6: BII should also massively reduce investments through financial intermediaries** as it cannot have clear oversight of its spending, evidence of poverty reduction or guarantees from intermediaries that money will not be invested in non-compliant sectors.

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[54]CDC's energy investments: *building just, green development*', (2020). Availible here: CDC_energy_investments_briefing_final_130920.pdf (ctfassets.net)

[55] DFID, Evaluating the Impact of CDC's Financial Institutions Portfolio Terms of Reference, (2020). Available at: https://aidstream.org/files/documents/ToR---CDC-20200925070933.pdf

[56] Ibid

[57] DFID Evaluation of CDC's Financial Sector Portfolio, (2022). Available here: DevTracker Programme IN-MCA-U74140DL1998PLC097579-1667_CDC_DFID_UK (fcdo.gov.uk)

a. Instead, BII should invest in companies with strong human rights and environmental track record.