

CDC's Energy Investments

Note on research methodology

Author: British Overseas NGOs for Development (BOND)

UK ODA through CDC Group

Overseas Development Assistance (ODA) is defined as government aid that promotes and targets the economic development and welfare of developing countries. ODA rules and reporting standards are set by the Organisation for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC), and the UK is currently committed to spending 0.7% of its Gross National Income (GNI) on overseas aid (measured on a calendar year) according to the OECD DAC definition.

Prior to 2015, CDC Group was a self-financing institution which received no additional funding from DFID, and the UK reported net equity investment outflows (purchases minus sales) from CDC Group as ODA.¹ In 2016, as part of a broader modernisation of ODA rules to shift towards a grant-equivalent method of calculating aid flows, the OECD DAC announced temporary new rules for the reporting of ODA through Private Sector Instruments (PSI) for calendar year 2015 onwards. This created, on a provisional basis, two methods for reporting ODA through PSI vehicles: the institutional approach, and the instrumental approach.

Under the institutional approach, ODA is reportable at face value at the point of placement of funds in the ODA-eligible DFI or other entity in the donor country. Under the instrumental approach, equity investments and loans made directly into private sector entities are counted on a cash-flow basis (provided they met the concessionality threshold), with net investment flows (outflows minus inflows) reportable as ODA. Under both approaches, any dividends or profits from PSI paid back to the government would count as negative ODA.

Following the 2015 Spending Review, DFID was required by the UK Treasury to increase its development capital investments (or "non-fiscal" spending) to £5 billion over the Spending Review period.² Unlike grant aid, by creating a financial asset non-fiscal spending does not count towards total government borrowing. The annual Financial Transactions ringfence in the DFID budget has been progressively increased since 2015 (currently standing at £1.2bn within DFID's 2020-21 Main Estimate) and has been almost entirely met through capital transfers to CDC.

Until 2014 the UK had followed the instrumental approach for reporting ODA through CDC, recording net outflows from CDC as ODA. From 2015 onwards, as CDC Group began receiving capital transfers from DFID as part of a recapitalisation plan to expand its investment activities, the UK chose to adopt the institutional approach for ODA related to CDC, reporting 100% of new DFID investments in CDC as ODA. DFID investments in CDC Group are made through promissory notes, which are reported as ODA at face value at the point of issuance by DFID (not when the note is drawn down, or funding committed or invested by CDC).

Between 2015-16 and 2019-20 CDC received a total of £2.8bn in ODA transfers from DFID and is scheduled to receive an additional £2.27bn from DFID between 2020-21 and 2021-22³. Figure 1 shows the total reported (and, in the case of 2020, proposed) ODA flows related to CDC for each calendar year from 2010 to 2020, including the division between UK International Climate Fund (ICF) and non-ICF funding within total DFID ODA transfers.

¹ Loans through CDC Group were not counted due to a lack of conditionality.

² International Development Committee's Allocation of Resources Inquiry, 'Memorandum by DfID',

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-development-committee/dfids-allocation-of-resources/written/28276.pdf>

³ As outlined in the current DFID business case, available [here](#).

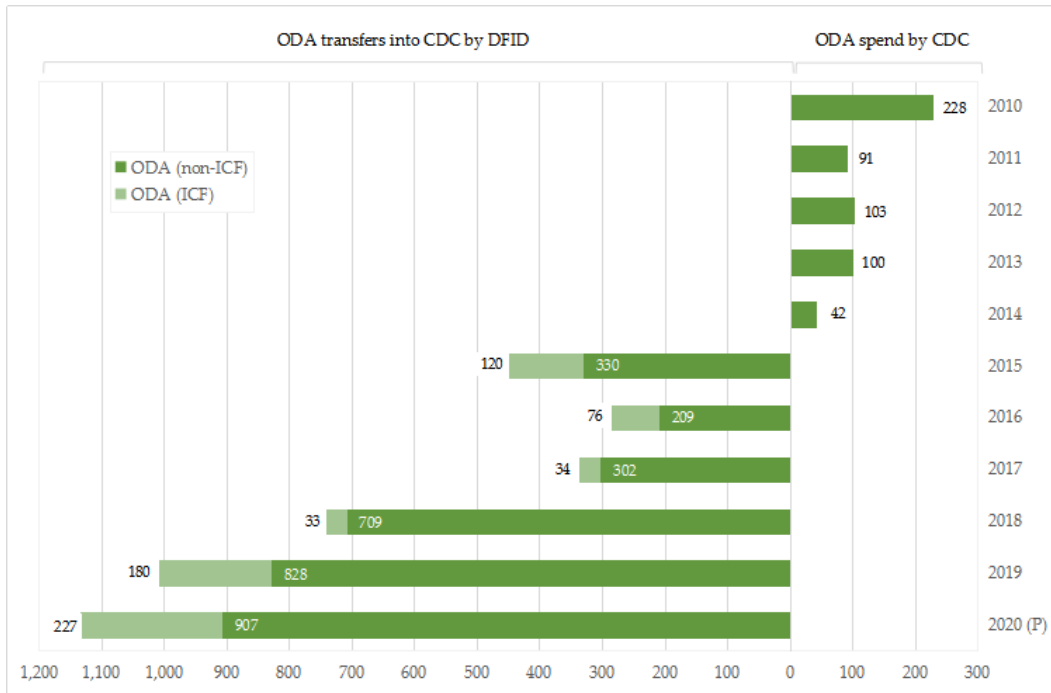


Figure 1: Total ODA through CDC (2010-2020) (£m)

The UK is currently the largest single reporter of PSI ODA amongst all 29 OECD DAC members, accounting for 41% (\$1.35bn) of all PSI aid reported (\$3.29bn) in 2019, and 72% (\$1.33bn) of all PSI reported through the institutional approach (\$1.85bn). Figures 2 and 3 below show the total reported PSI ODA for all OECD DAC members (including both the institutional and instrument approaches), and total reported PSI through the institutional approach, for 2019.

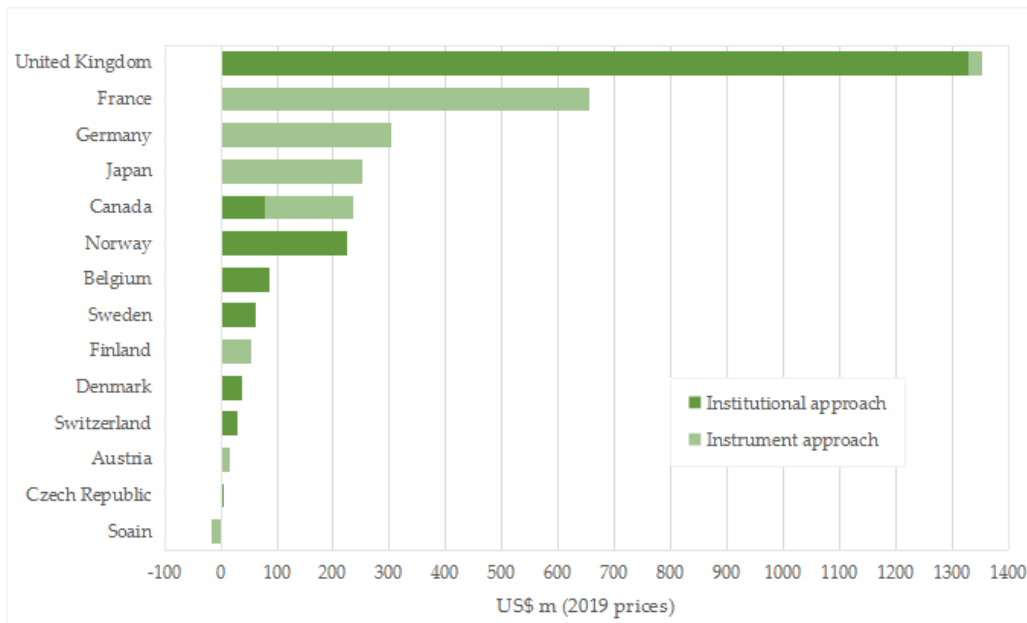


Figure 2: Total PSI ODA reported by OECD DAC members (2019) (\$m)

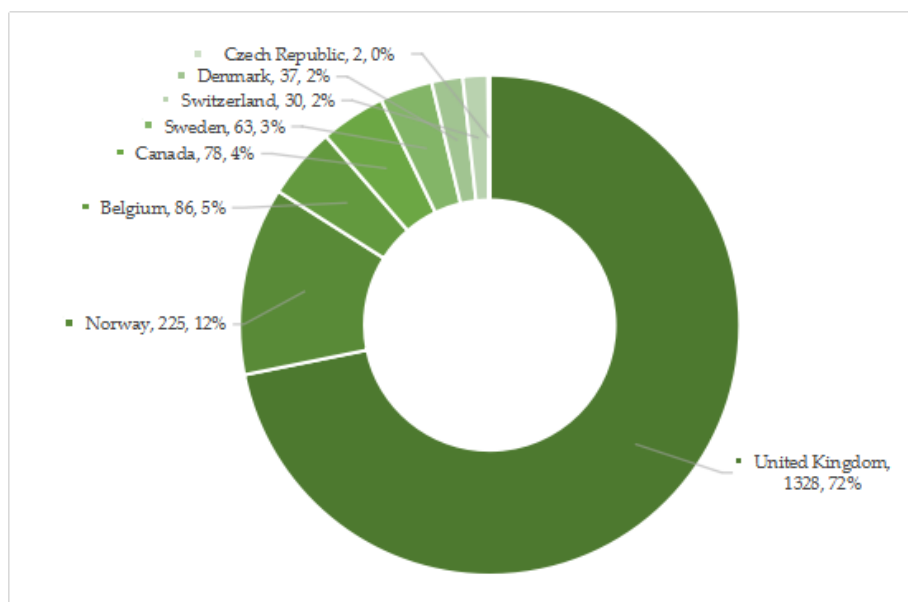


Figure 3: Total institutional PSI ODA reported by OECD DAC members (2019) (\$m)

Measuring CDC's investments in Globeleq

Unlike the other direct investment commitments listed, CDC's acquisition of a majority stake in Globeleq in 2015 was a cashless transaction involving the transfer of CDC's existing indirect investment in Globeleq Africa held via the Actis Infrastructure 2 fund. In correspondence, CDC provided an "illustrative" commitment amount of \$426m for the 2015 transaction, with additional further investment commitments following the acquisition totalling \$89m (identified by CDC as \$52m to fossil fuels and \$37m to renewables).ⁱ CDC also provided indicative figures for total commitment amounts by fuel type (\$364m for fossil fuels and \$151m for renewables), with the split applied to commitments approximated using the percentage split of Globeleq's underlying fossil fuel and renewables valuations as of 31st December 2019 (equivalent figures were also provided by CDC using the same methodology for the Africa Power Platform (APP)).ⁱⁱ In presenting CDC commitments to energy by year, identified commitments to individual projects have been subtracted from the total commitment values by fuel type provided by CDC and counted in the year of commitment.

Assessing CDC energy investments through managed funds

For CDC energy investments through managed funds, individual company investments are only reported by CDC retrospectively via the investment list published on the CDC website, and neither the initial nor the current investment values of the individual fund investments are disclosed. For the purposes of this briefing CAFOD requested from CDC a list of all fossil fuel and renewable energy investments (according to CDC's definition) made through managed funds, including their initial and current investment values. CDC provided a list of 42 investments in 38 companies which it classed as related to fossil fuels, and a list of 108 investments in 106 companies which it classed as related to renewable energy. CDC did not disclose details of initial and current investment values but provided consolidated initial and current investment values for the lists provided.

The investment lists provided by CDC were compared against the investment list available through the CDC website as of 1 July 2019. In the case of fossil fuels, 34 fossil fuel-related investments in 27 companies were identified as listed in the public investment list but not included in the list provided by CDC, including four investments in two companies with dual fossil fuel and renewable exposure (this figure does not include additional fossil fuel-related investments listed in the public investment list which were confirmed by CDC as incorrectly reported in correspondence). In the case of renewables, 16 renewables-related investments in 16 companies were identified as listed in the public investment list but not included in the list provided by CDC,

and 13 companies in the list provided by CDC were identified as either not being listed in the public list (11 companies) or having dual fossil fuel and renewable exposure (two companies). Consolidated initial and current investment values for these investments were requested from CDC but were not provided.

Reporting by currency

CDC's Annual Report and Annual Accounts provide figures in GBP, however the majority of CDC Group's investment activities are denominated in USD, and all commitment, investment drawdown and Net Asset Value (NAV) figures provided by CDC in correspondence are quoted in dollars. Where GBP conversions are provided, these are converted using the quoted Bank of England rate for 31st December 2019 (GBP 1 to USD 1.321).

Sources

Figure 1: Annual and total ODA transfers from DFID to CDC

Source: Department for International Development (DFID) (2020) 'CDC Programme of Support in Africa and South Asia (2015-2023)', available at <https://devtracker.dfid.gov.uk/projects/GB-1-203444> and DFID (2017) 'CDC Group 2017 -2021 capital increase business case', available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/651848/2017_to_2021_CDC_capital_increase_business_case_publication_1038.pdf

Figure 2: ODA through CDC as a percentage of total ODA (2010–2019) (£m)

Source: DFID (2020), Statistics on International Development: Provisional UK Aid spend 2019, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878401/Provisional-SID-tables1.xlsx and DFID (2019) Statistics on International Development: Final UK Aid spend 2018, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878404/Additional-Tables-Stat-Intern-Dev-Final-UK-Aid-Spend-2018-7April2020.xlsx.

Figure 3: CDC portfolio by investment type (2019) (£m)

Source: CDC (2020) 'CDC 2019 Annual Review', available at: <https://www.cdcgroup.com/en/annual-review-2019/>.

Figure 4: Globeleq electricity-generation capacity by fuel type (2020) (MW)

Source: Globeleq (2020). 'Globeleq homepage', available at <https://www.globeleq.com/>.

Table 1: CDC direct investments in fossil fuels – commitments (2014–19) (\$m)

Source: CDC correspondence, 18 June 2020.

Figure 5: CDC direct investments in fossil fuels – commitments (2014–19) (\$m)

Source: CDC (ibid).

Table 2: CDC direct investments in renewables – commitments (2014–19) (\$m)

Source: CDC (ibid).

Figure 6: CDC direct investment in renewables – commitments (2014–19) (\$m)

Source: CDC (ibid).

Figure 7: CDC total direct investments in energy (2014–19) (\$m)

Source: CDC correspondence, 18 June 2020 and 10 July 2020.

Table 3: CDC's direct investments in fossil fuels before 2020 Climate Change Strategy – commitments (2014–19) (\$m)

Source: CDC correspondence, 18 June 2020.

Table 4: Potential CDC direct investments in fossil fuels after 2020 Climate Change Strategy – commitments (\$m)

Source: BOND analysis of CDC correspondence, 18 June 2020.

Figure 8: Number of CDC investments in fossil fuels through managed funds (2008–19)

Source: CDC correspondence, 18 June 2020.

Figure 9: Number of CDC investments in renewables through managed funds (2008–19)

Source: CDC (ibid).

Figure 10: Number of CDC investments in renewables through managed funds (2008-19)

Source: CDC (ibid).

Figure 11: CDC total energy investments through managed funds (2008–19) (\$m)

Source: CDC correspondence, 18 June 2020 and 10 July 2020.

Table 5: CDC direct commitments to financial institutions (2019) (\$m)

Source: CDC (2020) 'CDC 2019 Annual Review', available at:
<https://www.cdcgroup.com/en/annual-review-2019/>.

Figure 12: Total current value of CDC's investments in energy (2019) (\$m)

Source: CDC correspondence, 18 June 2020 and 10 July 2020.

Figure 13: Electricity generated and distributed by CDC investments by fuel type (2019) (MW)

Source: CDC (2020) 'CDC 2019 Annual Review', available at:
<https://www.cdcgroup.com/en/annual-review-2019/>.

ⁱ CDC correspondence, 25 August 2020.

ⁱⁱ CDC correspondence, 18 June 2020.