CAFOD
Catholic Agency for Overseas Development

no one beyond reach

CDC leadership in a just and green recovery

Deploying catalytic capital to boost low-carbon sectors in Africa and South Asia

Executive Summary July 2020

Covid-19 has caused the global economy to crash with devastating impacts on millions of poor communities.[1] Amidst the immediate humanitarian needs and people's livelihoods that have been destroyed, there is the need to consider what kind of economy will serve people and planet in the future.

There is growing consensus amongst politicians, business and the UK public that there needs to be a just, green recovery globally.[2] This will require green investments that support a 1.5-degree world, restore nature and prioritise the needs of vulnerable people and communities.

The British public's rising awareness on environmental issues is leading to growing expectations that aid is spent in green ways that protect and restore ecosystems and reduce greenhouse gas emissions.[3] This will become an issue of increasing importance in the run up to the UK hosting COP26 in November 2021.[4]

Development finance is one of the channels needed to support countries to build back better and CDC has pledged to support countries in this task. With its mandate to use ODA to "improve people's lives and make a financial return",[5] CDC can use its role as a bridge between aid and the private sector to concentrate on green investments that reduce poverty and respect human rights[6] in a way that maximises its contribution to the Sustainable Development Goals. As a recipient of UK Aid, CDC is bound by the International Development Act (2002) to ensure that all investments are focused on poverty alleviation and sustainable development.

Within CDC's focus on job creation, supporting a just and green recovery means that the metrics around jobs cannot be simply the number of jobs created, but have to be quality jobs that will enable people to live dignified lives and will benefit more vulnerable populations.[7] These are jobs that include a living wage, social protection, non-discrimination, social dialogue and no forced labour (see Box 1).

CDC has recently made commitments to engage more on issues of climate change and energy, as outlined in the publication of CDC's new climate change strategy in July. The strategy sets out its approach to Paris alignment based on the three building blocks: (1) net zero by 2050 at a portfolio- and transaction level; (2) just transition; and (3) adaptation and resilience. The strategy sets out how to begin aligning each investment with the aim that "30% of annual commitments in 2021 to be invested in climate related projects and businesses".[8]

The strategy highlights that "the change required to address the climate emergency is not incremental. If we do not make a fundamental shift in how economies and sectors work, we will exceed a 1.5°C increase in global warming as early as 2030".[9]

As countries seek to recover from Covid-19, their economies need to be greened *at pace*. In this discussion paper we put forward proposals which would enable CDC to increase its ability to meet the challenge of accelerating a just, green recovery. This is the ideal time to deepen strategic changes that are already being made because the business case for future government funding of CDC beyond 2021 and CDC's next five-year strategy from 2022 are being written.

The UK government, as CDC's sole shareholder, also has a crucial role. It needs to set clearer parameters for the use of any UK Aid that CDC receives, including the complete divestment from fossil fuels and a higher risk-appetite to achieve greater development impact. We focus our recommendations on two key areas.

1) **Divest from polluting sectors and prioritise investment in quality jobs in green sectors**

CDC should transform its portfolio by phasing out its fossil fuel investments by 2021 and invest to create quality green jobs in low-carbon sectors, with a particular emphasis on the poorest and marginalised groups, such as women.[10]

This will involve an immediate moratorium and review of all current fossil fuel-based investments across coal, oil and gas. It will also require CDC to develop a wider range of investments and expertise in the low-carbon sectors that have shown the greatest potential to create quality jobs, such as renewable energy, transport and sustainable agriculture.

Building on the commitments in the new climate change strategy, including how to further integrate environmental considerations into tools for assessing development impact, CDC should move towards prioritising investments based on whether they are:

- more likely to create quality jobs (in particular for the poorest and marginalised groups, including women);
- more likely to enable green goods and services that are in line with a 1.5-degree world and that restore ecosystems.

2) **Catalyse a just green recovery from Covid-19 by taking on higher risk**

CDC has a small higher-risk Catalyst portfolio covering around 5 per cent of its investments. This portfolio shows that CDC is able to accept a higher risk appetite in exchange for higher potential development impact. Over the next few years, CDC should increase its focus on patient and flexible catalytic capital[11] across the vast majority of its investments to navigate the new complex Covid-19 environment.

Prior to the pandemic, CDC was already part of the emerging impact investing "quiet revolution" in the finance sector which looks at impact on society, people and the environment alongside maximising risk-adjusted returns.[12]

Now is the time for CDC to build on its experience and learning from its pioneering Catalyst portfolio to play a global leadership role in deploying catalytic capital to speed up the low-carbon transition.

Section 1: Responding to Covid-19 with green investments that support quality jobs

Recommendation

Divest from polluting sectors and prioritise investment in quality jobs in green sectors

To play a leadership role in the just, green economic recovery, CDC will need to transform its portfolio by phasing out its fossil fuel investments by 2021 and scale up investments to create quality jobs in low-carbon sectors such as renewable energy, transport and sustainable agriculture.

CDC has rightly focused on supporting developing country responses to Covid-19, such as responding to government requests for support on healthcare. CDC and other Development Finance Institutions such as the International Finance Corporation have also concentrated on helping their clients to get through the immediate impacts of the pandemic.[13] This has included resolving liquidity issues for small and medium businesses struggling with their cash flow.[14]

Looking to the long-term recovery, CDC can invest in ways which reinforce national actions plans on climate change and poverty eradication. There is appetite for increasing low-carbon investment in the markets where CDC operates. The UN Economic Commission for Africa has said: "We must 'build back better', by ensuring that there is an abiding climate consciousness in the rebuilding and by leveraging the digital economy".[15]

Unlike in the aftermath of the 2008 global crash, green investments are now more viable. The costs of low-carbon technologies have fallen dramatically and there is support for climate action from key development institutions such as the World Bank and IMF.[16]

As the head of the IMF said in April, "we are about to deploy enormous, gigantic fiscal stimulus and we can do it in a way that we tackle both crises at the same time… If our world is to come out of this [coronavirus] crisis more resilient, we must do everything in our power to make it a green recovery".[17]

Which investments should stop?

CDC needs to shift investments away from industries which degrade the environment and contribute to climate change. A major part of this would entail a change in the sectors that were eligible for investment. CDC currently has restrictions on its capital going to things such as hazardous chemicals, ozone depleting substances, endangered or protected wildlife products.

The new climate change strategy details a fossil fuel exclusion which covers several areas of coal, gas and oil investment.[18] This should be extended to cover the production of, use of, or trade in fossil fuels (that are not already covered, in

particular downstream gas and gas-fired power generation projects) and also include single-use plastic and commodities connected to deforestation.

Due to the climate crisis there should be an immediate moratorium on any further UK CDC investments in fossil fuel power generation, exploration, production and distribution. At the same time, CDC should undertake a review to understand existing fossil fuel investments and to develop alternative proposals for current and planned fossil fuel investments.

Up to now, CDC has not reached a decision on whether to divest hundreds of millions of pounds from its legacy investments in oil, gas and coal,[19] in countries such as Ghana and Nigeria.[20] Divesting would keep it in line with the growing calls for shifting finance away from fossil fuels[21] and any funds divested from fossil fuel investments could be re-deployed to support responses to Covid-19 in ways which help to leapfrog to greener economies.

Where should CDC invest?

There are sound economic reasons to create green jobs in the wake of Covid-19. An estimated 65 million new jobs in low-carbon industries could be created by 2030.[22] However, how this is done will require careful consideration. CDC is a signatory to the United Nations Principles of Responsible Investment statement of investor commitment to support a just transition on climate change.[23] This highlights:

- The “critical need for the transition to be both fast and fair is recognised in the Paris Agreement. The evidence shows that the shift to a resilient, low-carbon economy will boost prosperity and be a net driver of job creation.”
- That “there will be transitional challenges, however, for workers, communities and countries as this shift takes place”.

As CDC announced in its climate change strategy, it is vital to ensure that all its investments have an explicit focus on improving the lives of the poorest people and communities (and contribute to a just transition), and align CDC’s portfolio with a 1.5°C global warming limit. These investments should enable green goods and services – those which contribute to protecting and restoring ecosystems and reducing greenhouse gas emissions.

This can happen across different sectors and at different stages along the supply chain but there are sectors that lend themselves more to this kind of investment that is both green and has a greater development impact.[24]

Below are recommendations on key sectors, already identified in the climate change strategy, with examples of current and potential CDC investments. Energy accounts for around two-thirds and agriculture and land use change for around a fifth of global greenhouse gas emissions.[25]

Power sector

Research by CDC shows that investing in electricity is vital to increasing productivity and economic growth.[26] CDC is already invested in off-grid energy which is having positive impacts on the lives of the poorest by helping to increase their incomes and reduce their dependency on polluting kerosene.[27]

Investing in decentralised renewable energy (off-grid, standalone, mini-grids) powered by the sun, wind or hydro[28] is one of the most effective ways to lift more people out of energy poverty in a sustainable way.[29] This is particularly the case in rural areas. Patient capital and guarantees provided by an actor such as CDC are often needed for larger-scale decentralised renewable energy. This can help de-risk these types of investments.

Types of energy investments could include:

- Household solar systems (*e.g. CDC Investment: M-KOPA Kenya, Uganda);*
- Energy efficient appliances;
- Renewable energy generation (*e.g. CDC Investment: Ayana Renewable Power South Asia)* and storage;
- Renewable energy transmission and distribution (*e.g. CDC Investment: Gridworks (Africa).*

Transport sector

The emerging energy value chain is cementing business models which combine household solar systems, battery storage and charging infrastructure. This could be combined with e-mobility which is set to be a major green market. Investment in areas such as electric charging points would enable an expansion of low-carbon transport technology markets (electric vehicles, hydrogen, and hybrids). Investing in alternatives to diesel- and petrol-powered vehicles will reduce air pollution.

There is also potential for these alternatives to be safer (reduction in road traffic accidents) which would mean another positive social outcome. Investments in e-mobility are crucial because they will allow African and South Asian countries to leapfrog to low-carbon transport systems which will free them from using outdated highly-polluting diesel and petrol vehicles.

Investments in e-mobility in rural areas have great potential to increase access for the poorest to markets and services, thus increasing development impact.[30] There are commercial opportunities in e-taxis[31] and e-motorbikes.[32] These are often based on apps which rely on digital infrastructure (this means investments in digital communications, which CDC has been prioritising in recent years, are crucial to enable some green markets). Ideally these investments as part of a just transition would create quality jobs rather than precarious jobs, which can be the case with some transport apps.

E-motorbikes have great potential to link up with solar energy systems in ways which benefit the poor by enabling mobility, increasing energy security and reducing air

pollution. They could become more affordable opening up further market opportunities.

Types of transport investment could include:

- The manufacture and/or sale of low-carbon vehicles (green good);
- Infrastructure which enables public transport and private low-carbon vehicles, such as electric-vehicle charging, green freight and logistics (green service).

Other sectors

There are other sectors that lend themselves to significant green investment potential that we don't consider in detail here (which are also covered in the new climate change strategy), such as:

- Sustainable agriculture and forestry (e.g. investment in organic fertiliser and organic food (*e.g. CDC Investment: GreenPath Food Ethiopia)* or in restoration of biodiversity through nature based solutions;
- Construction, e.g. green building materials (*Related CDC Investment: 14 Trees Africa)* and design and installation to reduce energy used to heat, cool and light buildings (energy efficiency);
- Manufacturing, e.g. investing in packaging alternatives to single-use plastics.

Other investment considerations

These green investments should adhere to all of the guidelines and criteria for best practice that has been developed over recent years. This has been documented in extensive detail in other publications,[33] much of which is covered in CDC's existing ESG process, and should include:

Social and environmental safeguards and due diligence. There should be robust safeguards in place to mitigate environmental and social risks and affected communities should have access to grievance mechanisms. All investments will require careful assessment and compliance with the UN Guiding Principles on Business & Human Rights[34] and IFC performance standards, in particular on rights to be consulted and to prevent harmful gender impacts.[35] This due diligence takes on greater importance in the Covid-19 context where it has become even more dangerous for those defending their rights to speak out.

It will be important to factor in due diligence on the suppliers of key metals and minerals for green products (e.g. batteries)[36] to ensure human rights are being respected and resource efficiency standards are being implemented. Companies should continue to be required to meet due diligence and safeguarding standards before receiving investments.

As the UK government's recently published Global Resource Initiative, which focuses on recommendations related to reducing deforestation in supply chains, notes: "wider environmental and human rights impacts associated with commodity

production and trade must also be addressed and the lessons extended to other food commodities and beyond, for example mining and extraction commodities".[37]

Circular economy. A key factor in an investment being considered green is the extent to which circular economy approaches are embedded in the production of green goods and services, i.e. the extent to which they are designed, produced and sold in ways in which materials, energy and waste are re-used. The full life cycle of the product and service should be assessed, in particular the absolute greenhouse gas emissions of the investment (cradle-to-grave).

Dialogue for a just transition. According to the United Nations Principles of Responsible Investment, investors need to adopt investment strategies that assess "exposure to the social dimension (including employment impacts) of the transition, pursuing dialogue with workers and other key stakeholders, and integrating just transition factors into investment beliefs and policies".[38] A practical way CDC can do this is to engage a range of stakeholders (including employers, workers, unions, communities and government) on the vision of a just transition and aim for green jobs which are also quality jobs.

Supporting Quality Green Jobs

CDC asks a crucial question on its website: "how can we support the poorest countries to deal with the economic transformation required to reach 'net zero', and in a way that is socially just?".[39] This is an even more pertinent question given that the Covid-19 pandemic has highlighted existing socioeconomic inequalities. Jobs are at the heart of CDC's mission and objectives because they are seen as a key mechanism to raise incomes and reduce poverty. As CDC recognises in its climate change strategy, investing in green jobs that are also quality jobs is one way CDC could seek to achieve a socially just transition.[40]

Box 1: What is a quality green job?
For CAFOD, a quality green job is a job that protects and restores the environment, and where people's rights are respected. It would mean that an employee:

- Works for an enterprise or service that doesn't damage the environment or climate;
- Doesn't need to work excessive hours in order to earn an income that is enough to support her family and save for a rainy day (a living wage);
- Receives paid maternity and sick leave (social protection);
- Is not coerced in her work (no forced labour);
- Earns the same wage for the same work and has the same opportunities as others regardless of their personal characteristics (no discrimination);
- Can join a union or association to negotiate for better working conditions (social dialogue).

In March 2019, the ICAI review into CDC gave the institution an *Amber/Red* rating which it defines as: "Unsatisfactory achievement in most areas, with some positive elements. An area where improvements are required for UK aid to make a positive contribution".[41] In July 2020, ICAI published a follow up to this review. It found inadequate progress has been made: "While CDC has put in place mechanisms and

tools for improving its attention to development impact, the evidence is not yet clear that these are sufficiently shaping investment practices".[42] Uncertainty about development impact of CDC's investments is a consistent finding when there have been reviews of CDC by the National Audit Office in 2016[43] and the Public Accounts Committee in 2017.[44] This has led CDC to improve its systems to track impact through sector strategies and a development impact thesis for each investment.

Another way that CDC can respond to these reviews is to invest in companies which aim to create quality green jobs which have positive social outcomes (e.g. workers benefit in various ways; e.g. positive health outcomes in the covid-19 context) and environmental outcomes (e.g. restoration of biodiversity, reduction of greenhouse gas emissions). This objective could be applied in the following way as part of commitments in the new climate change strategy. CDC could choose which companies to invest in based on whether they were more likely to:

> **1) Create quality jobs.** This could include assessing whether the investment results in a significant percentage of the workforce with secure jobs and a living wage. It would also be important to focus on increasing opportunities for marginalised groups, such as women.[45] This could require supporting green skilling up.
>
> **2) Enable green goods and services.** This could include assessing whether goods and services reach the poorest and marginalised groups such as women, the extent to which they restore biodiversity, and how they support to renewable energy access and e-mobility for marginalised groups. As not all sectors are especially green at the outset (e.g. manufacturing and agriculture), nuanced assessments would be needed on the extent to which investments in non-obviously green sectors could be decarbonised as part of contributing to the goal of reducing environmental degradation.

While the metrics for quality, green jobs are context-specific according to sectors, types of investments and location, the basic principles are comparable across all sectors. CDC already has a quality jobs strategy and Impact Dashboard[46] for each investment (based on the Impact Management Framework)[47] which is a solid starting point for it build on when seeking to measure quality green jobs. Clearer metrics on environmental protection and poverty alleviation need to be at the core of the impact measurements around jobs and therefore investment decision-making.

Although there has not yet been an independent evaluation to confirm whether this is the case, it appears an example of CDC intentionally investing to create quality green jobs and contribute to the just transition is when it committed £79.9 million to Ayana Renewable Power in 2017.[48] The company which operates solar projects (and in future wind) in India, Pakistan, Sri Lanka and Myanmar aims to increase employment for marginalised women. The project aims to increase not just renewable energy but also access to that energy for excluded groups (income, gender or class) around the project area through decentralised off-grid options such as solar PV and solar lanterns (both key components of SDG7 on sustainable energy for all).

Section 2: The importance of deploying catalytic capital in the Covid-19 context

Recommendation

Catalyse a just green recovery from Covid-19 by taking on higher risk

The Catalyst portfolio shows that CDC is able to accept a higher risk appetite in exchange for higher potential development impact. Over the next few years, CDC should increase its focus on catalytic capital across the vast majority of its investments to navigate the new complex Covid-19 environment.

As CDC's 2018 Annual Review notes, foreign direct investment into Africa and Asia "is still well beneath the levels required to support the SDGs".[49] The Covid-19 pandemic is deepening this trend. According to the United Nations Conference on Trade and Development, global FDI is anticipated to be cut between 30 to 40 per cent during 2020-2021.[50] Whilst some investors are still willing to consider riskier locations,[51] the overall trend is of a huge outflow of capital.

The UN Economic Commission for Africa has called on DFIs to "play an unprecedented counter-cyclical role to protect the private sector and save jobs".[52] However, research shows that DFIs have not done enough to be counter-cyclical during past crises.[53] The IFC has seen a huge surge in demand from existing clients and non-clients due to capital outflows and reductions in FDI.[54]

CDC has already been supporting its investees directly which will hopefully lead to quicker growth and therefore protect jobs and higher taxes paid by business. Now and over the next few years is the time to go beyond this and contribute to further reversing the fall in foreign investment in Africa and South Asia by experimenting further with higher-risk investments across its portfolio.

This is what has been happening already in one part of the portfolio. For the last few years CDC has had a small Catalyst portfolio (around 6 per cent of total portfolio) which seeks to maximise impact and to shape markets. Through this portfolio CDC has setup Gridworks, which a focus on transmission, distribution, off-grid and mini-grid energy infrastructure. The goal of the company is to change the landscape of electricity supply and bring down emissions through efforts such as improving the stability of grids (thus enabling more energy generation from renewables) and enabling connections for users who rely on kerosene.[55]

A large portion of private investment into energy in Africa is in electricity generation. Gridworks aims to play a pivotal role in increasing investment in transmission and distribution which reduces losses on the network by sharing electricity more efficiently within and between countries.[56] There are plans for this to include off-grid electricity infrastructure which could transform the economy and provide green jobs.

In the Catalyst portfolio higher risk and transaction costs are tolerated to achieve enhanced development impact. The approach is to "commit to spending time to find, assess, structure, negotiate and manage deals for more ambitious impact".[57] There

is more space to experiment because: “given we’re investing in markets where there are few precedents or benchmarks, we take a flexible approach to risk in exchange for pioneering impact”.[58]

Using the Catalyst portfolio to navigate the Covid-19 context

CDC has the ability (and the mandate) to bring other investors with it[59] to mobilise sufficient capital to the transformative levels required to support the Sustainable Development Goals. The approach used in the Catalyst portfolio will be crucial as CDC’s aims to invest in higher-risk countries which will see their financing options further reduced by the pandemic.

Investment teams are already having to consider and decide whether an investment is via the Catalyst portfolio, or the main Growth portfolio. As more concrete examples of successful Catalyst investments appear, they are helping to give confidence to others to see how they too can implement this approach. Documenting these case studies has been crucial because the current Investment Policy only gives a brief outline of how the higher-risk portfolio should be used.

If CDC is to operate successfully in the Covid-19 context to push forward green investment, it is likely that it will need to be able to continue its approach of being flexible.[60] This is particularly the case because the duration of the economic impacts of the pandemic are likely to be unpredictable in the global south.

This is why the Catalyst portfolio approach should be adopted more widely across the portfolio to ensure CDC has the space to be a pioneer in shaping green markets at scale by taking on higher-risk commercial opportunities. This is especially the case when trying to catalyse nascent green markets. However, experimentation does not always have to mean that an investment has to be very innovative. It could mean investing in a green market that requires further funding, but which is considered riskier.

CDC should also adapt its understanding of additionality which is based on whether commercial investors would have made the investment anyway. Benchmarks for additionality should be adjusted to enable more investments which directly tackle the climate and ecological crisis, as well as tackle poverty.

There is great potential for green sectors to grow to create jobs that can already be identified as well as jobs that do not yet exist. As technology advances and entrepreneurs innovate, new types of jobs will be created. Investments across CDC’s entire portfolio could be used to support new technology and new business models to strengthen nascent green markets. Climate change has been described as the biggest market failure of all time. Indeed, addressing market failures such as this is one of the stated objectives of the Catalyst portfolio.[61]

Investments under the Catalyst portfolio are ambitious. They aim to be market shaping (systemic change) and have substantial impact (scale).[62] This outlook, which enabled the investment in Gridworks, could be applied across the portfolio to

specifically try and unlock green markets by providing access to finance which develops green value chains (ideally a knock-on effect of reducing the costs of capital for green investment would be to increase costs for polluting investments).[63]

In the short-term, CDC could play a crucial role in shaping green markets by minimising the destruction of companies producing and enabling green goods and services using all the tools at its disposal from equity, loans to guarantees (through CDC Plus). This could contribute to the consolidation of existing green markets and has potential to stimulate nascent green industries.

With the sharp falls in the oil price, this pandemic could potentially lead to a process of accelerated 'creative destruction' in relation to economic activity which damages the environment and undermines resilience. CDC could try to influence that process so that it supports businesses which contribute to the green recovery and strengthen resilience to future shocks.

During the Ebola emergency in Sierra Leone, CDC partnered with Standard Chartered on a $50 million loan facility to keep a range of local businesses afloat.[64] Now is an ideal moment to focus CDC's likely partnerships with financial institutions that seek to repeat the success of what was done in Sierra Leone on explicitly prioritising companies that are already creating higher quality jobs and enabling green goods and services, or have the potential to do so.

Increasing CDC's risk appetite would enable CDC to deploy more counter-cyclical investment which is so crucial at the moment. As businesses go bankrupt, or are at risk of doing so, CDC has backed up its investees.[65] If CDC adopted the approach of the higher-risk Catalyst strategies across its portfolio this could build on its existing Covid-19 response to open up higher-risk green commercial opportunities.

Another measure which could support a higher risk appetite would be if CDC had a lower expected annualised financial return. For the Growth portfolio (i.e. not the Catalyst portfolio) this is set at 3.5 per cent in the current Investment Policy which pre-pandemic may have meant CDC investment teams took up the option to prioritise more mature investments with a proven track record. From now on, CDC could tolerate lower returns and financial losses (e.g. could be up to half of their invested capital).

Conclusions

The ambition, as set out in the Sustainable Development Goals, has to be to promote sustainable development that tackles poverty, strengthens livelihoods, restores ecosystems and tackles climate change. CDC has the potential to make a significant contribution to these goals by investing to support the creation of quality green jobs as part of just transition consistent with a 1.5°C global warming limit.

In this discussion paper, we have presented ideas on how CDC could increasingly deploy catalytic capital to boost low-carbon sectors in Africa and South Asia.

The UK government, as CDC's sole shareholder, could instruct CDC to divest completely from fossil fuels and have a higher risk appetite. This would enable CDC to build on its new climate change strategy and give it an increasing ability to meet the challenge of contributing to an accelerated and just, green recovery.

CDC is in a good position to take on the challenge of shifting its portfolio so that it was deploying more catalytic capital in low-carbon sectors. Staff numbers at CDC have grown significantly in recent years (from 161 in 2015 to 235 in 2018),[66] giving it the capacity to identify a pipeline of commercially viable green investments that tackle poverty and to green the whole of its portfolio.

The institution also has significant resources as its disposal to make a bigger impact on poverty. CDC has received £1.8 billion of ODA since 2015 and is due to receive another £3 billion by 2022, with possibly up to £6 billion after that.

This is the ideal time to deepen strategic changes that are already being made because the business case for future funding of CDC beyond 2021 and CDC's next five-year strategy from 2022 are in the process of being developed.

The pandemic is causing unprecedented hardship for the poorest and marginalised people in Africa and South Asia. Amidst the challenges of building back better, CDC can be play a pivotal leadership role by using its patient capital to support the greening of economies and strengthen long-term resilience.

References

1 World Bank website: Poverty

2 'Remarkable consensus': Climate Assembly supports green recovery and longer-term low carbon lifestyle changes, Business Green, 23 June 2020

COP26: Raab and Sharma join calls for green recovery from Covid-19 crisis, Ends Report, 29 April 2020

Heed lessons of 2008 crisis, experts warn global leaders, The Guardian, 20 May 2020

3 The same is likely to apply in future to CDC investments which are linked to plastics, deforestation and which undermine wildlife conservation. In the last year opinion polls are increasingly showing the British public are worried about climate change and biodiversity loss. This has been most visible from schoolchildren, but also from doctors, firefighters, faith leaders and investors. More and more voters want to know how their taxes are being spent to tackle climate change.

Two thirds of Britons believe Climate Change as serious as Coronavirus and majority want Climate prioritised in economic recovery, Ipsos Mori, 22 April 2020

4 UK considers ending financial support for fossil fuels overseas, The Guardian, 12 June 2020

5 CDC Strategic Framework 2017-2021, Page 15

6 UN Guiding Principles on Business & Human Rights

7 CDC is currently working with other European DFIs on indicators of job quality to build on its Code for Responsible Investing which requires meeting the IFC Performance Standards and ILO Core Conventions.

8 CDC Climate Change Strategy, July 2020, Slide 28 and Slide 35

9 CDC Climate Change Strategy, Executive Summary, July 2020

10 CDC website: Advancing Women's Economic Empowerment

11 MacArthur Foundation Website: Catalytic Capital Consortium

12 CDC website: Reflections from the UK-Africa Investment Summit

13 CDC: COVID-19 Guidance for investors and financial institutions on job protection, April 2020

14 CGD Conversations on COVID-19 and Development: Philippe Le Houérou, April 2020

15 UNECA: Covid-19 in Africa, Protecting lives and economies, April 2020

16 The green road to post-crisis recovery, Financial Times, 24 April 2020

17 IMF chief: $1 trillion post-coronavirus stimulus must tackle climate crisis, Climate Home News, 24 April 2020

18 CDC Climate Change Strategy, July 2020, Slide 35

"We will not make any new commitments (equity and debt) deemed as misaligned directly or through funds and co-investments in the following sub-sectors:
Coal: Coal-fired power plants (including dual-power plants), retrofitting and rehabilitation of existing coal power facilities, coal mining, processing and trading
Oil: upstream oil exploration and production, midstream oil (including refineries), HFO only-fired power plants and mini-grids
Gas: standalone upstream gas exploration and production
Transport: Transport infrastructure for exclusive crude oil or coal transportation for power generation."

19 UK considers ending financial support for fossil fuels overseas, The Guardian, 12 June 2020

20 Greenpeace, Unearthed, UK aid money used for fossil fuel investments, April 2020

21 Prominent stakeholders include BlackRock, the Royal Bank of Scotland and UN Secretary-General António Guterres, who urged stock exchanges in September 2019 to divest from fossil fuels.

22 CDC website: Climate change: what DFIs can do to make a difference

23 UNPRI: Climate change and the just transition: a guide for investor action

CDC already has a team working on the just transition as part of implementing CDC's climate change strategy. Including a contribution to this in CDC's objective fits with the direction it is going in and builds on the UK government's decision in the Green Finance Strategy to require CDC to make climate-related financial disclosures by 2021.

24 There are a range of ways to define what a green investment is. See

World Bank, Developing a National Green Taxonomy, July 2020

IFC: Green Finance A Bottom-up Approach to Track Existing Flows, 2017

25 WRI, 4 Charts Explain Greenhouse Gas Emissions by Countries and Sectors, February 2020

26 CDC website: What's the impact of investing in power? January 2020

27 60 Decibels: Why off-grid energy matters, February 2020 https://60decibels.com/energy-report

28 Investments in large-scale hydro power can carry significant environmental and social risks meaning they should be fully evaluated with a full costing of technical, financial, environmental, social and climate risks following the criteria established under the World Commission on Dams.

29 CAFOD website: Sustainable energy for everyone

30 ODI: Literature Review on poverty and transport focuses transport policies' implications for poverty reduction, 2014

31 Electric taxis — a welcome drop in Nairobi's pool of emissions, DW, 24 August 2018

32 Why motorbike apps are scrambling for Africa, BBC, 30 October 2019

Motorcycle taxi drivers go electric, DW, 2 September 2019

33 Statement to Development Finance Institutions regarding Covid-19 response, Coalition for Human Rights in Development, May 2020

The development effectiveness of supporting the private sector with ODA funds, ITUC, 2016

Aligning UK energy support overseas with a just energy transition, UK NGO briefing, 2020

(available on request)

34 UN Guiding Principles on Business & Human Rights

35 CDC investment: Lake Turkana wind project

Lake Turkana Wind Power, Business and Human Rights Resource Centre

36 Sustainable Drive, Sustainable Supply: Priorities to Improve the Electric Vehicle Battery Supply Chain, NRGI and Berkley Law, July 2020

37 Global Resource Initiative: Final Recommendations Report, March 2020

38 UNPRI: Climate change and the just transition: a guide for investor action

39 CDC website: Climate change: what DFIs can do to make a difference

Investing in companies to create quality green jobs will enable CDC to contribute to a just transition i.e. the necessary shift from highly polluting sectors to green economic sectors. Part of this is training workers in green skills, in particular women, to facilitate their transition to existing green jobs and to the jobs of the future. New skills and training will be needed for green jobs. Skills development is now

one of CDC's key focus areas alongside women's economic empowerment, quality jobs and climate change. CDC Plus is providing technical support for companies to do skills and inclusion.

40 CDC Climate Change Strategy, Executive Summary, July 2020

41 ICAI review: CDC's investments in low-income and fragile states, March 2019

42 ICAI follow-up review of 2018-19 reports, July 2020

43 NAO: Department for International Development: investing through CDC, 2016

44 Public Accounts Committee: The Commonwealth Development Corporation inquiry, 2017

45 CDC website: COVID-19 and women's economic empowerment: a chance to invest for change?

46 CDC website: Understanding each 'Impact Dashboard'

47 CDC 2019 Annual Review launch event: Towards a decade of action: 10 years to achieve the Sustainable Development Goals

48 CDC website: CDC funds new independent solar and wind generation company in India and South Asia

Ayana Renewable Power website

49 CDC Group Annual Review 2018

50 UNCTAD Investment Trends Monitor, March 2020

51 Desperate hunt for yield forces investors to take 'extreme risk', Financial Times, 26 July 200

52 UNECA: Covid-19 in Africa, Protecting lives and economies, April 2020

53 ODI: Development finance institutions and the coronavirus crisis, March 2020

54 CGD Conversations on COVID-19 and Development: Philippe Le Houérou, April 2020

55 Gridworks website: FAQs

56 UK investor Gridworks eyes African utilities overhaul, African Business, April 2020

57 How CDC Group is Innovating with Catalytic Capital, Impact Alpha, September 2019

58 CDC website: Our approach to innovating with catalytic capital

59 CDC website: What is the economic impact of COVID-19 in Nigeria?

60 CDC website: What's the role of development finance in the era of COVID-19?

61 CDC Investment Policy 2017-2021, Page 40

62 The goal and requirements for the higher risk portfolio (Catalyst Portfolio) are set out in Appendix 5 (page 39-41) of the CDC Investment Policy 2017-2021

63 Viewpoint: Investing in green doesn't equal greening the world, IPE Magazine, February 2020

64 CDC website: Standard Chartered Sierra Leone Ebola Banking Facility

65 CDC website: response to COVID-19

CDC: COVID-19 Guidance for investors and financial institutions on job protection, April 2020

66 CDC Annual Accounts 2016, Page 2 and Page 42.