British International Investment

Sarah Champion MP
Chair, International Development Committee
House of Commons
London
SW1A 0AA

22 April 2022

Dear Sarah

Thank you for providing British International Investment (BII) with the opportunity to give evidence to the International Development Committee's inquiry into "Extreme Poverty and the Sustainable Development Goals" on Tuesday 29 March.

As requested, we are writing with further information on the points raised by the Committee. We have grouped the information into the following four areas as they were raised in the hearing:

1) CPGNL Limited;
2) poverty reduction;
3) DP World; and,
4) gender lens investing.

We hope the information provided in this letter is helpful. We look forward to speaking with you and the Committee Members again soon.

Yours sincerely

Diana Layfield
Chair, BII plc

Nick O'Donohoe
CEO, BII plc

British International Investment's follow up response to: International Development Committee oral evidence session – 29 March 2022

1. CPGNL Limited

Cummins Power Generation Nigeria Limited (CPGNL) is not a direct investment of BII but an investee of a company called Globeleq, Africa's leading independent power producer. BII is the majority but not sole shareholder in Globeleq. The business has a fully constituted board with majority independent members and fully constituted sub-committees. Globeleq committed to invest in CPGNL at the end of 2020 to provide electricity to businesses in Nigeria suffering from acute power shortages and relying on highly emissive diesel generators. The decision made by Globeleq to invest in CPGNL was not predicated in any way on UK content or "tied aid".

2. Poverty reduction

The Committee requested we write with further information including how we arrived at the benchmark of $5.50 per day, along with further information on: 1) research referenced by Diana Layfield on the income required for a permanent escape from poverty; and 2) research referenced by Mita Samani looking at the impact of increased investment in Kenya on poverty reduction. We have provided further information on these areas below.

The fight against extreme poverty requires action on many fronts. Development finance and private investment is a key part. We know this because rapid private investment has been a key factor in historical episodes of sustained extreme poverty reduction at scale. However, while we have a role to play, we recognise development finance alone is not a panacea. If a country faces a humanitarian crisis, it needs grant aid in the first instance and will need development finance in the long term if it is to create the economic foundations needed to escape poverty and leave aid dependency.

Development Finance Institutions (DFIs) work to support poverty reduction in two ways. First, we create the economic foundations required to lift people and countries out of poverty in the long term. Investment from DFIs helps to overcome the challenge of limited economic enablers - like reliable internet and electricity - that undermine business growth. Furthermore, through job creation, DFIs boost productivity while increasing tax receipts needed to finance public expenditure and anti-poverty programmes. In turn, when DFIs invest in a project or company, they can encourage private sector investors to deploy capital alongside them. This is vital because we know the SDGs cannot be achieved without a huge amount of finance from the private sector. **Second, we provide jobs, goods, services, and economic opportunities that directly benefit lower income populations**. For example, our investments in solar home systems like M-Kopa and Greenlight Planet have improved energy access for 38 million people in some of the hardest to reach places; and our investment in CropIn has improved income for millions of smallholder farmers by providing data of crop health.

When developing our approach to impact management, we gave significant thought to how we target poverty reduction and as part of our new strategy, we made supporting Inclusive development one of our three impact objectives. All our investments look at who benefits and by how much; and this includes looking at characteristics such as the income level and gender of the people we are working to benefit. This is the basis of our Impact Framework, an in-depth assessment of every potential investment before we decide to invest. This work ensures the more an investment targets poverty reduction, the stronger the 'impact thesis' and the more likely it is to be approved by our Investment Committee. We also measure impact at a portfolio level. This is focused on the combination our three Strategic Impact Objectives: Productive, Sustainable, and Inclusive (PSI). The latter has a specific measure for targeting poverty. This is where the $5.50 per day benchmark is used. Investments that directly target that demographic - 50% or more of employees or customers living below the benchmark - would receive the highest score. By looking at the proportion of workers and customers who live under $5.50 a day we are in effect looking at the extent to which an investment directly benefits people living in poverty.

Research indicates a substantially higher line of $13 per day is associated with a permanent escape from poverty. It is this research by Andy Sumner and Eduardo Ortiz of Kings College London, and presented at the UN last year, that Diana Layfield referred to at the hearing. The academics argue $13 a day is the 'security from poverty line', because the 'risk of falling back into absolute poverty diminishes to a very low probability above $13 a day.'

There are also practical reasons for the $5.50 benchmark. We need to invest in businesses that are financially sustainable for them to have a long-term development impact. If the benchmark was set at the "extreme poverty" level of $1.90, we would vastly limit the number of investable businesses because it would mean 50% or more of their employees or customers are living on less than $1.90 per day. In practice, businesses serve customers at a range of income levels rather than solely targeting those in extreme poverty - to serve low-income populations a business needs to offer affordable products and these low costs are achieved through offering their products at scale and splitting the costs of running the business across a large number of consumers.

We remain committed to targeting extreme poverty and this has been enhanced with our new strategy. In addition to the points outlined above on impact measurement, our new portfolio scoring system incentivises capital to 23 countries that have the highest poverty gaps, lowest GDP per capita, and/or are defined as 'extremely fragile' by the OECD. We are also increasing the size of our higher risk Catalyst portfolio - which targets additional development impact - so that it will make up to 15% of our total portfolio by 2026.

The research Mita Samani referred to is from a BII Insight paper. The paper looks at how investment can support poverty reduction. It argues the simple statistical association between investment and poverty in the data suggests an elasticity of roughly two, meaning that when the rate of capital accumulation rises by 1%, the rate of poverty reduction might be expected to increase by 2%. When looking at Kenya, these numbers suggest that raising the level of investment by $10,000 would lift one additional person out of extreme poverty that year; and this is for an average private sector investment, not targeted to reach those people living in extreme poverty.

3. DP World

The Committee requested we write with further information on our partnership with DP World including governance arrangements.

Our partnership with DP World is solely aimed at improving critically needed ports and logistics infrastructure across Africa. Our rationale is clear. Africa has a sixth of the world's population but accounts for just 4% of global containerised shipping volumes. Ports and inland infrastructure remain inefficient in many places across the continent, increasing the cost of goods to consumers and businesses and stymieing economic growth. The result is people and economies are cut off from participating fully in the global economy, exacerbating and perpetuating poverty.

The impact case is compelling and we would not have invested if it wasn't. The partnership looks at ports and logistics across the continent, starting with three ports in Dakar (Senegal), Sokhna (Egypt), and Berbera (Somaliland). Trade enabled through those three initial ports is expected to improve access to vital goods for 35 million people and support 5 million jobs (138,000 created). By 2035, an estimated $51 billion in additional trade is forecast to pass through the ports, equivalent to 3% of Senegal's GDP, 3% of Egypt's GDP and 6% of Somaliland's GDP. The modernisation of further ports and logistics in the continent beyond the initial three ports will bring further development impact benefits.

BII is entering an investment partnership that will deliver development impact and a return for the UK taxpayer. BII is not providing a grant or an aid donation to DP World – in return for its investment in the partnership BII is receiving shares in the holding companies of the three ports. The investment is intended to deliver both development impact and a commercial return for BII (and therefore the UK taxpayer), in line with our mandate for the past 70 years.

Prior to committing to the investment, we ensured protections and appropriate governance are in place. The legal agreements for our investment incorporate IFC Performance Standards, the core international environmental and social (E&S) standards for DFIs (full range of ESG topics considered and link to IFC guidance here). These must be applied where there is a risk of significant negative E&S implications such as retrenchments and require that workers are treated in a fair and equitable manner and are fully consulted with as part of any retrenchment process. Our agreements also ensure the ILO conventions, and UN Guiding Principles on Business and Human Rights are followed. Ultimately, we have the option of legal recourse if they are not. Before matters reached this point, however, we would expect to use our governance rights to influence our investments for the better: in the case of our partnership with DP World, we have two of five seats at the joint venture partnership level, as well as a board member and specialist ESG observer rights at the holding companies for the different underlying ports and logistics investments.

The investment is 'additional' because it is encouraging DP World to do more in Africa than it otherwise would have. DP World is a very large global company and has large commercial investment partnerships[1]; however, Africa is not a focus for those global partnerships precisely because of the challenges the region poses to investors. Moreover, even within the continent of Africa, there is a spectrum of markets in terms of investor familiarity and comfort. This new partnership includes from its outset what we believe is the first ever direct investment by any development finance institution in Somaliland infrastructure. BII brings 70 years' history of investing to foster economic growth in Africa and, in BII providing both capital and experience to support in this partnership, we believe DP World – who as a global operator have competing global demands on their capital – will do more in Africa, including in frontier territories such as Somaliland, than without BII. And more investment in African ports and logistics will bring more development impact.

We believe the partnership will also play an important role in catalysing and mobilising further private investment, rather than displacing it. We believe the creation of this partnership by BII with DP World and BII's presence as a shareholder in these and other ports (with our governance representation as described above) will give confidence to other financial investors to potentially join us in this particular investment in the future. Further, at a market-wide level, outside of Africa it is quite common for there to be multi-port partnerships between global port operators and financial investors[2], whereas no such multi-port partnership has ever been undertaken between a global port operator and a financial investor dedicated to Africa. Our partnership therefore brings for the first time to the continent a proven model which other port operators may replicate in future and thus increase investment in the continent. Finally, more generally, the wider signalling effect of BII's investment in the Berbera corridor – as highlighted by President Bihi of Somaliland in a recent address on Somaliland's potential to be a logistics hub – will, we hope, be the catalyst for further inwards investment into one of the most marginalised regions in the world.

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[1] Such as DP World's partnership with CDPQ in North America, Latin America, Asia Pacific and Europe: https://www.cdpq.com/en/news/pressreleases/dp-world-cdpq-expand-global-investment-platform-us82-billion

[2] Such as GIP's partnership with MSC-TIL or DP World's partnership in India with India's National Investment & Infrastructure Fund (NIIF).

4. Gender lens investing

In 2018, we launched a new gender strategy to address both the barriers that women face and the opportunities that increasing women's participation represents. There is a clear and growing body of evidence that closing gender gaps helps companies grow and drives prosperity. Our gender strategy resulted in practical action: we identified gender opportunities across the spectrum from entrepreneurs, boards and senior management to employees, consumers and the wider community; and we've been measuring the impact of our investments on women since then.[3]

In the same year (2018) we co-founded – alongside the other G7 DFIs – the *2X Challenge* designed to mobilise more private sector investment into businesses that benefit women. This began with work led by BII to develop and agree recognised metrics for assessing what qualifies as 'gender finance'. This framework, known as the '2X criteria', has since become the industry standard and has helped to mobilise more than $11 billion to date from DFIs, the private sector and other investors in investments that meaningfully support women.

Across our investments we look at ways to enhance the benefits for women. For all of our investees, we assess and track their development impact against the 2X criteria. For investments where we identify significant gender impact opportunity, we offer a suite of value-add services to help investees reach their gender goals. This includes conducting gender diagnostics, developing Gender Action Plans (GAPs) with timeframes, targets and KPIs, human capital support to identify diverse candidates for leadership positions, technical assistance, and utilising tools and resources of our partners.

In addition to supporting our own investees, we work to provide broader thought leadership. We have been very active as a leader in building the field of gender lens investing, beginning in 2018 when we sponsored the world's first Gender Smart Investing Summit, and over the past several years, with the publication of our Gender Toolkit, which offers a suite of open-source tools and resources for investors, and shares industry best practice on gender lens investing and case studies from our own portfolio. This includes learnings from our work training women in non-traditional roles at a port in Gabon, research on the benefits off-grid solar products for women, and guidance on addressing gender-based violence and harassment. The Toolkit is complemented by our Gender-smart Investing Guide for Fund Managers and our Gender-smart Investing Masterclass training. At COP26, recognising the gender-climate nexus, we published the 2X Climate Toolkit alongside EBRD and EIB. We also seeded the growth for The Boardroom Africa initiative which is designed to accelerate women in leadership in businesses across Africa. In 2020, we were recognised by the Center for Global Development as the #1 bilateral DFI for gender finance – and last year, BII was instrumental in establishing the 2X Collaborative, the leading industry body for gender lens investing. Currently we play a leading role across a wide range of initiatives and partnerships to promote gender lens investing, including co-leading the 2X Investment Professional Working Group; Chairing the 2X Flagship Funds Committee; and co-leading gender impact harmonisation efforts with HIPSO, GIIN and EDFI.

While we've been measuring the development impact of our investments on women since 2018, this has been further enhanced by our new strategy. The 2X assessment is built into our due diligence process for all deals and is included in the Impact Score that we produce for every deal and monitor over time. We have updated our database systems to accurately capture this data and have provided training and assessment tools for all internal investment and impact teams on how to assess for 2X. Over the next five years, we have set a specific target for at least 25% of annual

[3] Women made up 28% of direct jobs supported by our investee companies in 2020. More information on the composition of our portfolio on our Key Data page, available here.

commitments to qualify under the 2X criteria. In addition, we have developed a suite of gender advisory capabilities to support and nudge our investees to make gender-smart improvements over the life of our investment.

Female representation in our markets is historically low. For example, women make up just 4% of senior management in South Asia (McKinsey Global Institute, 2018). Data from our latest portfolio review (2020) indicates that the median percentage of women on the boards of our direct investees (excluding funds and intermediated structures) was 11%, the median percentage of women in senior management (c-suite level) was 14%, and the median percentage of women in full-time employment was 21%. We are confident that through our consistent 2X assessments, our new targeted strategy for gender-smart origination, and our post-investment technical assistance support, we will be able to nudge a significant improvement in overall representation of women in our portfolio over the coming five years. A sample of our direct investees show that the percentage of female employment has increased year on year from 2017-2020 and net female job growth has grown over time. We also know through anecdotal evidence that investees respond to our nudging and our support; for example, Ecom Express in India has increased its women in senior management from 11% to 16% in the past 2 years with support from our BII Plus grant facility; and HBL in Pakistan has increased its women employees from 12% to 20% in the past 5 years supported by our gender-smart banking training and advisory support.