Supplementary Written Evidence Submission to the International Development Committee
Investment for development: The UK's strategy towards Development Finance Institutions

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Introduction

The IDC's forthcoming report on this issue will be timely in the context of the UK white paper on international development expected to be published in November and the strong narrative emerging from African countries on the need for increased investment to support Africa's green transition. In response to growing interest in this agenda, the ONE Campaign and the Center for Global Development (CGD) are collaborating on a joint project to better understand the scale and effectiveness of UK development finance, and the kinds of investment that African countries want to support climate-positive growth, clean energy and decent jobs. CGD are currently finalising a paper[1] that details the work of the British Investment Partnerships including the purpose of each of the instruments, the volume of finance they provide, their mobilisation ratios, contribution to climate finance targets, transparency and poverty focus. While this work will not be published until September, given its relevance to this inquiry we wanted to share a summary of the emerging findings and recommendations with the Committee as it concludes its report.

We are aware that the Committee has already received many written submissions focussing on the role of BII. This supplementary submission is intended to complement these by focussing on the first question in the Committee's call for evidence:

What are the British Investment Partnerships (BIPs) and what are their objectives ?

The 2022 International Development Strategy highlights the following seven instruments under the umbrella of British Investment Partnerships: British Support for Infrastructure Projects (BSIP); British International Investment (BII, formerly CDC); The Mobilising Institutional Capital Through Listed Product Structures programme (MOBILIST); Private Infrastructure Development Group (PIDG); UK Guarantees; Just Energy Transition Partnerships (JETPs);UK Export Finance (UKEF).

[1] Ian Mitchell, Sam Hughes & Edward Wickstead (2023) [Forthcoming], "UK Development Finance beyond ODA – Mapping and Assessing the UK's Non-Grant Development Finance" (please note: embargoed until September 4)

This table provides a simplified overview of the BIP instruments. It combines official data for 2021 with estimates on various sources for mobilisation ratios; our assessment of transparency (see figure 1); and poverty focus (figure 3). The climate shares are a mix of out-turn and plans.

Instrument	Overview	UK Finance (£m)		Mob Ratio	ODA (£m)	Transparency***	Poverty focus**	Climate Finance	
		2021	Mobilised	Average	2021			Share	Reported
BII	Ongoing ODA injections combine with profits for impact investments in companies	1866	3,377	0.5	661	High	Med	30%	Yes
PIDG	Multi-donor org buying equity or bonds, and issuing guarantees to mobilise investment	261	426	1.5	71	Med-High	High	~34%	Part
MOBILIST	Works with financial service firms to mobilise capital & support investments to stock market listing	120	602	4.0	42	High	N/A	100%	Part
BSIP	Grants and technical advice to recipients for UK delivered infrastructure	0	0	2.5	~0	Med	Low-Med	~50%	TBC
Non-ODA instruments									
Guarantees	Guaranteeing repayments to enable additional lending by multilateral development banks (MDBs) inc JETPs	~8	727	9-25	0*	Low	Low	100%	No
JETP	Enabling countries to commit to energy transition (exc guarantees)	381	381	N/A	0*	Low	Low	100%	No
MDB reform	Using existing MDB balance sheets to raise capital and lend more	-	-	>25		N/A	TBC	~30%	No

UKEF	Finance for developing country firms/ govts to buy UK products/ services	1500	1500	N/A	0*	Low-Med	Low	50%	No
Key figs		4128	6977						

*These items have no immediate ODA implication but if borrower defaults then loan repayments/ write off can be counted as ODA
** Med implies country recipients have income per head in line with the FCDO bi-lateral spend; low means recipients typically have income above that level; and high refers to where the focus is on lower income countries. These estimates are based on the poverty focus section; and on authors judgment of the profile sections.
*** Based on assessment of data we gathered, summarised in figure 2; though in the more comprehensive DFI Transparency Index; BII was ranked 12th out of 21 agencies.

1) Official data availability on BIPs

The mapping exercise undertaken by CGD highlighted significant gaps in the publicly available data available on many instruments as figure 1 illustrates.

Figure 1: Overview of BIP Official Data Availability

		BII	BSIP	Guarantees	JETP	MOBILIST	PIDG	UKEF
Face Value	Historic Data	☑	☑	☑	☑	☑	☑	☑
	Future Plans	☑	☑	☑	✗	☑	✗	✗
	Commitments	☑	☑	☑	☑	☑	☑	✗
	Disbursements	☑	✗	✗	✗	☑	✗	✗
ODA & concessionality	Historic Data	☑	☑	✗	✗	☑	☑	☑
	Future Plans	✗	☑	✗	✗	☑	✗	✗
Climate Finance	Historic Data	☑	✗	✗	✗	☑	☑	✗
	Future Targets	☑	✗	✗	✗	☑	✗	✗
Private Finance Mobilisation	Historic Data	☑	✗	✗	✗	☑	☑	✗
	Future Targets	✗	✗	✗	✗	☑	✗	✗

Source: Mitchell, Hughes & Wickstead (2023) [Forthcoming], based on a range of official sources.

Disbursement data is missing for most elements except BII and MOBILIST, there are significant gaps regarding future plans and targets, and data on guarantees emerges as a particular area of weakness, which is of concern given their increasing importance (see below).

2) Scale and importance of the BIPs

As can be seen from figure 2 below, there has been a significant increase in the volumes of finance being mobilised. On the basis of CGD's calculations, in 2021, the most recent year with full historical data, the **Government can plausibly claim to have mobilised almost £7bn of public and private finance,** up from £4.3bn in 2018[2]. And though data for 2022 is incomplete, the BIP total may be expected to reach £9.7bn in this year due to significant commitments made through guarantees. This already far exceeds the Government's £8bn target for 2025.

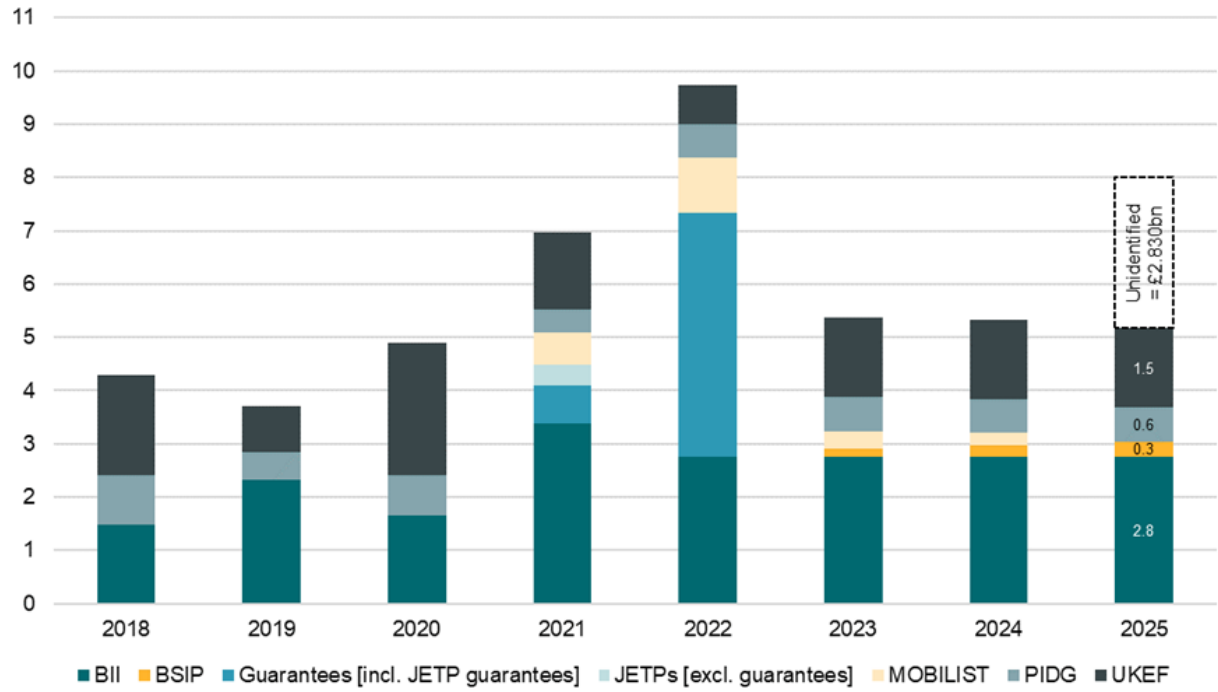
Looking across the seven BIP elements listed in the International Development Strategy, based on plans and projections CGD could identify £5.2bn of BIPs in 2025, leaving £2.8bn to come from currently unidentified sources if the £8bn target is to be met. However, note that this figure does not include any contribution from guarantees, though if the UK were to maintain its annual commitments through guarantees at their 2022 level, these will be more than sufficient to fill the gap and meet the 2025 £8bn target.

The main contributors are BII, UKEF and the new issuance of UK Guarantees to enable multilateral banks to increase lending, including for Just Energy Transition Partnerships (JETPs). UK Guarantees are the main driver behind the rapid increase in financing, with the Government catalysing £4.6bn of extra lending to developing countries in 2022, with limited risk of those guarantees being called (given the low risk of multilateral lending). This has enabled substantial investment, especially in projects to address the climate crisis, but it also raises two concerns. First, as highlighted above, there is a lack of transparency about guarantees. Second, if these guarantees are called, the loan repayments they guarantee will incur costs which will count as ODA. If the Government continues to treat the ODA budget as a largely fixed envelope, this would require cuts to other areas with little warning.

We recommend that the Government regularly publishes details of its liabilities and policy approach to guarantees, including their potential implications for ODA, as well as the objectives of the projects these guarantees support.

[2] CGD's calculation, based on established methodologies for calculating how much private finance has been catalysed by public finance.

Figure 2: BIP Total Finance Mobilised by Element (Nominal GBP billions)



Notes: (a) "BIP Total" includes the face value of UK commitments plus mobilised private finance. (b) To avoid double-counting, the BIP element for UK guarantees includes those guarantees which are a part of JETPs, and the JETPs element excludes those parts which are guarantees.

Source: CGD analysis

3) Mobilisation ratios of the BIPs

Like many other DAC donors, a central plank of UK policy over the past decade has relied on providing capital injections (which count as ODA) to development finance institutions in order to mobilise private investment. CGD's research on BIPs, in line with research on DFIs undertaken by others, confirms that **the ability of public finance to mobilise private finance is generally limited**. The amounts mobilised by the different BIP instruments vary as the summary table above shows. While some of the smaller instruments mobilise as much as £4 of private investment for every public £1, the average mobilisation ratio is much lower, with BII only mobilising 53p of private finance for every £1 of public finance. **This underlines the dangers of policy makers relying on the billions to trillions narrative.**

Meanwhile, the multilateral development banks (MDBs) are able to achieve much higher mobilisation ratios than many of the BIP instruments including BII, as Charles Kenny highlighted in his recent submission to the Committee. MDB reform offers the opportunity to significantly increase lending to lower-income countries on favourable terms, without significant risk to these banks or their shareholders.

We recommend that the Government takes note of the higher rates of mobilisation achieved by multilateral institutions, and the potential for that finance to have greater impact than UK-only instruments, as demonstrated by its own use of guarantees.

4) Scope to report greater volumes of climate finance

Most of the BIP instruments have explicit targets for supporting clean energy, providing climate finance or both. The UK Government has taken the principled stance of only reporting climate finance that qualifies as ODA to the UN. We calculate that BIPs could contribute up to £3.2bn of (ODA-eligible) International Climate Finance across the five-years 2021 to 2025 (i.e. up to 28% of the £11.6bn ICF-3 commitment). However, much of the finance mobilised – particularly through guarantees and multilateral development banks – arguably meets the UN criteria of being 'new and additional' and could legitimately be reported to the UN. This would enable the UK to better target its ODA and non-ODA resources. For mitigation finance, grant ODA, which is a limited resource, may not be the most appropriate finance tool given the higher income of many recipients and the potential returns to mitigation investment projects. There is a case for using and reporting to the UN the non-ODA efforts made by the BIPs and refocusing grant ODA where it is needed and other finance is unsuitable – in particular, on funding climate adaptation, health, nutrition or education in the poorest countries. Beyond (ODA-eligible) ICF, we calculate that BIPs could contribute over £7bn of climate finance between 2021 and 2025 (i.e. when including non-ODA commitments).

We recommend that the UK Government reviews its current and potential climate finance expenditure, and aims to focus grant resources on adaptation in the poorest countries, while using its wider finance portfolio to support both adaptation and mitigation.

5) Poverty focus

One measure of poverty focus is the extent to which development finance is targeted on the poorest people and countries. Analysis of three of the seven BIP instruments for which the best historical data was available (see Figure 3 below) found that all three are less focussed on the lowest income countries than the FCDO's bilateral ODA budget. While this is unsurprising as the finance is less concessional, it is notable that PIDG has a lower average recipient income than FCDO ODA and invests a considerably higher proportion of its resources in Africa.

Figure 3: Poverty Focus of BIP Elements

BIP Element	Average Recipient Income (2017 USD, PPP)[A]3		LIC Share (% Total)[B]	Africa Share (% Total)[A]
BIP elements (2017-21 average)				
PIDG[D]	$4.9k		36%	72%[F]
BII[C]	$6.1k		12%	56%[B]
UKEF[E]	$10.8k		17%	48%[F]
2021 UK ODA Benchmarks				
FCDO[G]	$5.2k[H]		58%[I]	52%[J]
Non-FCDO[G]	$9.6k[H]		23%[I]	44%[J]

Notes:
[A] Of country- and region-specific spend
[B] Of country-specific spend (using the World Bank's income classifications)
[C] i.e. BII investments [excl. intermediated investment]
[D] i.e. Financially closed PIDG projects
[E] i.e. UKEF to ODA-eligible countries
[F] To Sub-Saharan Africa (using the World Bank's regional classifications)
[G] i.e. FCDO / Non-FCDO bilateral ODA
[H] See: Hughes & Mitchel (2023) p.3
[I] To LDCs and other LICs; see: Final 2021 SID, p.32 / Excel Table 7
[J] See: Final 2021 SID, p.33 / Excel Table 5

Sources: CGD analysis using: BII investment data, PIDG Results Monitoring Database, UKEF business supported; World Bank World Development Indicators; World Bank classifications; Hughes & Mitchell (2023); UK Final 2021 Statistics on International Development

We recommend that each of the BIP instruments has a specific goal to support lower income countries, with clear expectations on its finance allocation based on their income level.

Conclusion

Our analysis highlights the increase in development finance being mobilised by the BIPs and confirms that the Government is on track to meet the target set in the International Development Strategy. It also identifies the need to improve the transparency of some BIP instruments,

3 Notes: [A] Of country- and region-specific spend, [B] Of country-specific spend (using the World Bank's income classifications) [C] i.e. BII investments [excl. intermediated investment] [D] i.e. Financially closed PIDG projects [E] i.e. UKEF to ODA-eligible countries [F] To Sub-Saharan Africa (using the World Bank's regional classifications) [G] i.e. FCDO / Non-FCDO bilateral ODA[H] See: Hughes & Mitchel (2023) p.3 [I] To LDCs and other LICs; see: Final 2021 SID, p.32 / Excel Table 7[J] See: Final 2021 SID, p.33 / Excel Table 5

especially guarantees, and to set specific goals for each BIP instrument to support investment in lower income countries. We suggest that there is scope to report greater volumes of climate finance provided via the BIPs to the UN, and to use this to better target grant ODA on adaptation in the poorest countries, while using its wider finance portfolio to support both adaptation and mitigation. Finally, we encourage the Government to note the higher mobilisation ratios achieved by the MDBs, and the potential for that finance to have greater impact than UK-only instruments, as evidenced by its own recent use of guarantees.

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