

Submission by Chris Hilson, University of Reading, UK

1. I am a Professor of Law at the University of Reading School of Law and Director of the Reading Centre for Climate and Justice. I have wide experience of climate change policy, including its justice implications.
2. Climate change disproportionately impacts developing countries who are least responsible for historical emissions. Climate finance from developed countries like the UK is an important part of addressing this climate justice issue, to help fund both mitigation and adaptation measures. However, this finance needs to be appropriately invested and managed so as not to compound climate harms in developing countries or create other forms of injustice.
3. I argue that for the UK to continue to demonstrate leadership in the financial aspect of climate justice, the CDC needs to be clear about its policies on indirect investments in high greenhouse gas-emitting companies which include fossil fuel energy, and about whether it will continue to directly invest in other high emitting sectors such as the meat and dairy industry.

Investments in the developing world

4. CDC Group is the UK's development finance institution, owned by the UK Government. It provides impact investment to companies in emerging economies, and its investments are stated to be in furtherance of the UN sustainable development goals. It has an investment portfolio of nearly £5 billion and thus it has a potentially sizeable climate impact and influence. It regularly publishes a list of its investments on its website.
5. As a development finance institution, CDC Group's stated approach is to invest in business growth "that lifts people out of poverty" with a particular focus on Africa and South Asia. Elsewhere on their website, CDC Group states that they are "a champion of the Sustainable Development Goals in Africa and South Asia, aiming to achieve a better and more sustainable future."
6. In its previous 2019 report, 'UK Aid for Combating Climate Change', the International Development Committee rightly raised the issue of CDC investment in fossil fuels, notably coal, and the Government response stated that CDC's policy is not to make **direct** investments in coal projects.
7. The CDC has recentlyⁱ set out a sophisticated climate change strategy which is designed to align its portfolio with the Paris Agreement. As part of this strategy, it has stated that it will not make any new commitments in coal, or upstream oil and gas exploration and production, or coal or oil transport.
8. However, the strategy is not clear about the CDC's policy regarding **indirect** investments in these areas and, looking at the CDC's list of investments, it contains numerous banks, some of which have recently invested in such projects.
9. For example, The African Export Import Bank (Afrexim) has in 2021 disbursed in Nigeria "US\$250 million of the US\$1.1 billion that supported the acquisition by TNOG Oil and Gas Limited (TNOG) of a 45% stake in OML 17 onshore oilfield."ⁱⁱ The Bank states that this

“underscores Afreximbank’s commitment to ensuring that indigenous African companies are able to play a more dominant role in the operations of specialized oil and gas assets in an industry hitherto dominated by the International Oil Companies. TNOG as the Operator of OML 17 will invest in an accelerated production ramp up thereby boosting foreign exchange earnings and employing more Africans.”

10. There is an important balance here between ensuring Paris alignment in CDC investments (including this Bank) and achieving a just transition which does not leave fossil fuel dependent economies like Nigeria with assets that become stranded at an unsustainable pace. But it is also important that investee companies such as banks are themselves supporting the crucial energy transition, in line with a reasonable transition trajectory, so that they are not actively encouraging countries to invest in yesterday’s assets.

Other industries – do they align with the Paris Agreement?

11. The strategy is also silent about (direct) investments in the meat and dairy industries, which are also known to have a significant climate impact. One of CDC investments is in Zambeef, the largest beef supplier in Zambia. Zambeef’s shares are dual listed in Lusaka and on the AIM market in the UK. Beef is associated with very high greenhouse gas emissions in particular because of methane from cattle.
12. There are important food justice issues to consider here alongside any Paris misalignment of CDC’s investment. There is a danger of a form of paternalistic, neo-colonial argument that beef should not be encouraged in developing countries, despite the fact that it remains a part of diets in developed countries. However, it is clear that **all** countries need to encourage reduced beef consumption to reach the Paris temperature goals.
13. The CDC should therefore include the food industry more explicitly within its climate strategy and set out how it plans to engage with companies like Zambeef to reduce their greenhouse gas emissions. Any investments (direct or indirect) which lead to unauthorised deforestation for agriculture should also receive careful scrutiny.

UK leadership on climate finance

14. UK leadership on climate finance and investments in developing economies is particularly important in the run up to COP 26. Attention has been focused recently on countries such as China, South Korea and Japan providing development finance for coal projects (with South Korea in April 2021 announcing it will cease new financing).
15. However, while coal sits clearly at the very harmful end of the spectrum, development finance also needs to address the full range of greenhouse gas intensive investment – both direct and indirect, and across all key sectors, including meat and dairy. The UK, through the CDC Group, can take a significant leading role among nations ahead of November’s meeting in Glasgow by making more explicit the expectations and policy around a wider range of investments and whether they align with a low carbon future.

ⁱ https://assets.cdcgroup.com/wp-content/uploads/2020/07/01170324/CDC_Climate_Change_Strategy_spreads.pdf.

ⁱⁱ <https://www.afreximbank.com/afreximbank-disburses-us250-million-in-support-of-trans-niger-oil-and-gas-limiteds-acquisition-of-45-stake-in-oml-17/>.