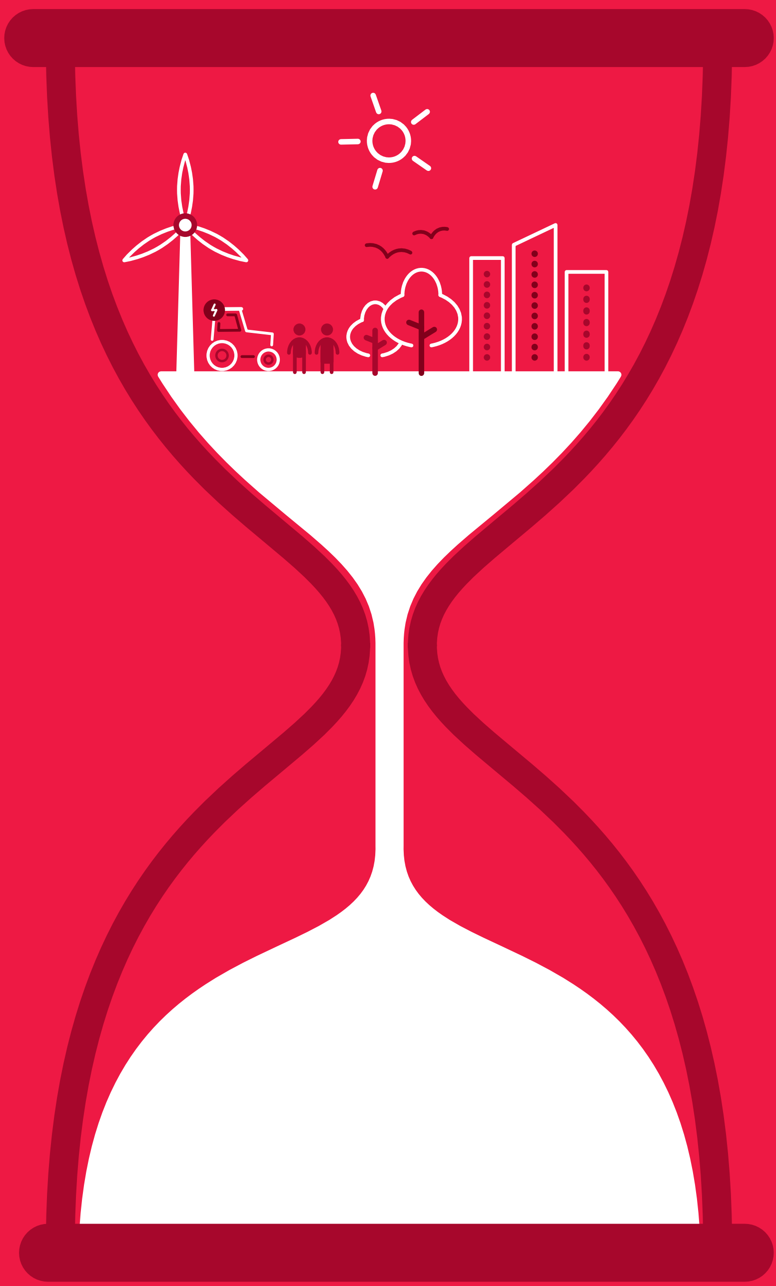
British International Investment:

A review of its changing mandate and impact



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British International Investment's evolution and continued challenges in fulfilling its development mandate

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1. Executive summary

British International Investment (BII) - formerly the CDC Group - is the UK Government's development finance institution (DFI) and undertakes private sector investments directly and indirectly (through investment funds) in low- and middle- income countries (LMICs). It aims to make socially and environmentally impactful investments, to fill gaps left by (and attract investments from) the private sector and to comply with financial return floors set by the UK Government.

Following a move to a private equity investment model in 1997 and a part privatisation in 2004, BII attracted growing criticism for paying insufficient attention to its remit "to contribute to economic growth for the benefit of the poor". In response, BII underwent two major reviews and has implemented a series of strategic reforms since 2012. These reforms have included: narrowing its investment focus to Africa and Asia and emphasis on sectors most linked to jobs; introducing pre-screening of investments for potential development impact; reducing return targets and introducing a new portfolio (Catalyst) to promote development impact; more detailed impact monitoring; and greater emphasis on direct investments, climate and gender.

Following initial reforms made through BII's 2012 strategy, the government restarted (after a 20-year pause) capital contributions to BII in 2015 and has since disbursed to it almost £6 billion (c4% of the total UK aid budget). Driven by these contributions BII's annual investment commitments have more than tripled, reaching £1.75bn in 2024. During 2018-24, BII made an average return of 5.1% on its investments (in Sterling terms), compared to its return floor set by the government of 3.5%.

Shaped by its 2012, 2017 and 2022 investment strategies, the focus and character of BII's investments have changed notably over the last decade. BII has increased its direct investments (to 64% of its portfolio by value in 2024), contributing to the average size of investee funds growing in terms of numbers of employees. Around 70% of BII investments are equity, which BII claims is higher than other bilateral DFIs and illustrates its ability to tolerate greater risk.

In terms of its geographical focus, BII's investments in Africa have grown significantly (from 46% of its portfolio in 2012 to 60% in 2024), with its focus on India growing moderately (from 21% of its portfolio in 2012 to 27% in 2024). The five largest recipients of BII investments (India, Egypt, Nigeria, South Africa and Kenya) constituted 64% of the total (excluding investments not reported by country) in 2024, and available data suggests their share may have grown in recent years. Although a growing range of least developed countries and fragile states receive BII investments, available data suggests their share of BII's portfolio may have declined in recent years, reaching 17% and 12.6% (5% without Nigeria) respectively (excluding investments not reported by country) in 2024. BII does though claim its focus on Africa and poorer countries compares favourably with other bilateral DFIs.

In terms of its sector focus, BII's investments in infrastructure (predominantly energy) and financial services (with a wide sector focus) have grown significantly, to 29% and 30% of its portfolio respectively in 2024. The share of BII's portfolio invested in health, and technology and communication have also grown, whilst education, manufacturing, construction and real estate has declined.

BII has introduced a series of valuable cross cutting strategies to promote gender equality, tackle climate change and promote responsible investing and transparency, and it has committed to expanding its investments in black African-owned and led businesses. These strategies have helped to drive important changes in BII's operations. However, significant challenges remain in these and other areas, which it is vital that BII addresses in order to fulfil its development mandate, maximise its development impact and justify the public resources it has accessed. Key changes and remaining challenges in these areas include:

- **Responsible investing**. Although BII has been judged to meet industry standards on responsible investing, it has failed to establish an independent complaints mechanism or to adequately apply safeguards to intermediated investees.
- **Climate change**. Although BII has committed to net-zero by 2050, support country net-zero plans and to move away from the dirtiest forms of energy, 6% of BII's portfolio is still exposed to fossil fuels and its 2050 deadline for net-zero is inadequate.
- **Tracking development impact**. Although BII has strengthened its approach to and capacity for tracking development impact, it has made limited progress in generating data to understand who it is reaching and degree of benefits for low-income groups, women and other people who are marginalised.
- **Promoting gender equality and decent work for women**. Although BII has made progress on promoting women's economic empowerment (partly guided by its work on the 2X Challenge), the proportion of jobs it has created for women has declined in recent years (from 30% in 2018 to 24% in 2024) and it is undertaking limited scrutiny of the actual gender impact of its investments.
- **Supporting Black-African owned and led businesses**. Although BII has committed to "promoting and increasing representation of black African-owned and led businesses", it is yet to report systematically on implementing this commitment (despite a commitment to do so).
- **Transparency**. Although BII has made important improvements to its transparency - helping it to become the most transparent bilateral DFI - it has not made any commitments to further deepen its transparency, and it is performing poorly in reporting on compliance with ESG principles across its investments.
- **Tax practices**. BII continues to channel significant volumes of investments to businesses registered in tax havens and its policies in this area have done little to address this challenge.
- **Investing in education and health**. Although BII has committed to scale-back investments in private education and health, its current strategy continues to allow such investments, especially by intermediaries.

2. Introduction

Since undertaking strategic reforms in the early 2010s, and receiving government capital contributions from 2015 onwards for the first time in20 years, British International Investment (BII), formerly the CDC Group, has become a more prominent part of the UK government's development apparatus. Between 2015 and 2024, BII received close to £6bn in capital from the government (around 4% of total UK aid, although with a larger share in 2024). Its portfolio has more than tripled since 2012, and it made £1.75bn in committed investments in 2024.

During this process of reform and growth, BII has changed significantly. The institution has implemented a series of investment strategies, developed new investment portfolios and instruments and emphasised new policy agendas across its investments. As a result of these changes, the challenges facing BII have also evolved significantly, and it has faced growing demands from its shareholder (DFID/FCDO), UK parliament and civil society to improve its development effectiveness and impact.

This briefing presents an overview of BII's evolving strategic focus, financing model and investment priorities over the last 10 to 15 years. Its aim is to enable the UK development community to better understand the institution and participate in its continued evolution. The briefing concludes by highlighting the significant ongoing challenges BII faces in effectively fulfilling its role in promoting development, reducing poverty, transforming economies in inclusive ways and creating equitable development partnerships.

3. A short history of British International Investment

BII is the UK government's development finance institution (DFI). BII undertakes private sector investments directly and indirectly through debt (i.e. lending to companies) and equity (i.e. taking an investment stake in companies) in low- and middle- income countries (LMICs). Its aim is to invest in sectors and companies in LMICs which the commercial private sector neglects and to pursue social and environmental goals.

BII has been through a number of incarnations throughout its history. It was established as a publicly owned enterprise called the Colonial Development Corporation in 1948 to assist Britain's colonies, primarily by undertaking direct investments to support agricultural development. In 1963, after most of Britain's colonies had become independent, it was renamed the Commonwealth Development Corporation (CDC), and in 1969 it began investing outside of the Commonwealth.

During the 1990s and early 2000s major changes to CDC were introduced, beginning with a pause in government capital contributions from 1995[1], initiating investments in private equity funds in 1997, and part privatisation (during which some CDC Funds were sold, but with the remaining operations staying in public hands) in 2004. Following these reforms CDC ended new direct investments and invested solely through supporting investment funds (intermediated investments) in LMICs.[2]

During this period, CDC attracted growing criticism that its development focus was weakening and it was paying insufficient attention to its remit "to contribute to economic growth for the benefit of the poor".[3] A 2011 parliamentary review concluded that CDC's investments were overly concentrated in a small group of large middle-income countries, and it was neglecting sectors important for poverty reduction and making some investments that the private sector would have made anyway (e.g. in shopping centres).[4] Other criticisms of CDC were that it conducted highly selective reporting on compliance with environmental and ethical standards,[5] it had a very high financial return rate (averaging 24% between 2004 and 2008[6]) and high executive renumeration.[7]

Following reviews in 2010/11 by the then Department for International Development (DFID) and parliament's International Development Committee (IDC), CDC introduced a new investment strategy in 2012. This significantly shifted CDC's operations and ushered in a period of sustained reforms.

1. National Audit Office, (2016), 'Department for International Development: investing through CDC' [paragraph 2, p5], NAO, London.
2. Thompson, G., (2011), 'Research briefing: CDC Group plc (formerly the Commonwealth Development Corporation)', House of Commons Library, London.
3. International Development Committee, (2011), 'The future of CDC - International Development Committee [Chapter 3]', UK Parliament, London.
4. International Development Committee, (2011), 'The future of CDC - International Development Committee [Summary]', UK Parliament, London.
5. National Audit Office, (2008), 'Investing for development: the Department for International Development's oversight of CDC Group plc', NAO, London.
6. See National Audit Office, (2008), 'Investing for development: the Department for International Development's oversight of CDC Group plc', NAO, London. See p. 5 and 12: NAO refers to it as an "over performance", largely due to market upturns in emerging economies.
7. Ibid.

4. British International Investment's evolving strategic focus

CDC's 2012 investment strategy committed the institution to make all new investments in Africa and South Asia; make potential development impact a more substantive element of investment decisions (including by utilising a Development Impact Grid to help direct investments towards countries or regions that found it hard to attract investment and sectors more likely to create employment); restart direct investments (with an initial target to reduce the funds share of its assets to 60% by 2015).[8 9]

The 2012 strategy also set CDC a lower returns target than previous strategies (3.5%, down from 5%) to allow it to take more risks and focus more on geographies and sectors that found it challenging to attract investment (with an emphasis on infrastructure, financial institutions, manufacturing, food and agriculture, construction, education and health).[10] In addition, Andrew Mitchell, the then Secretary of State for International Development, committed to bringing CDC pay and bonuses down to a level that was "fair and appropriate".[11]

In 2015, the government announced it would begin making new capital injections to CDC, committing an initial £735m for 2015/16 and 2016/17 (around 3% of the Official Development Assistance budget at the time). This was justified on the basis that "CDC's support is now targeted to countries and investments where it is needed most and where it can have the greatest impact".[12] In 2017, the government successfully introduced legislation (the Commonwealth Development Corporation Act 2017) to allow for further capital injections over the coming years. This legislation immediately allowed an additional £4.5 billion (taking total Government capital injections to £6 billion) to be provded, with an additional £6 billion to be allowed through presenting secondary legislation (a 'statutory instrument') to parliament.[13]

In 2017, CDC introduced a new investment strategy. This largely maintained CDC's main investment focus in terms of regions (Africa and South Asia), country groupings and sectors.[14] However, it formalised a new Catalyst portfolio (developed out of the DFID-funded Impact Fund, which began investing in 2014)[15], through which CDC committed to undertake investments with higher risk, lower financial returns and higher potential development impact. This portfolio sits alongside CDC's traditional investments (re-named the Growth portfolio).[16] Due to the introduction of the Catalyst portfolio, CDC's overall financial returns target was reduced to "greater than break even", although the Growth portfolio was still required to provide a 3.5% return. [17]

The 2017 strategy emphasised CDC's commitments to support the Sustainable Development Goals, promote women's economic empowerment (supported by CDC's first Gender Equality Position Statement, published in 2018) and contribute to addressing climate change (supported by CDC's first climate change strategy, published in 2020). This strategy also committed CDC to expand its capacity to promote and track development impact, increase its transparency and accountability, and introduce a modest programme of technical assistance (CDC/BII Plus) to help investees deepen their development focus.[18]

8. Department For International Development, (June 2011), 'Written statement to Parliament: Andrew Mitchell on the reform of CDC Group plc', UK Parliament, London.

9. CDC Group plc, '2012-16 investment strategy', CDC, London.

10. Independent Commission for Aid Impact, (2019), 'ICAI review of CDC's investments in low-income and fragile states', ICAI, London.

11. Financial Times, (29 April 2021), 'Salaries criticised at state-owned CDC' [web article, accessed May 2025], FT, London.

12. Department for International Development, (July 2015), 'UK boosts support for businesses to create jobs in the world's poorest places', UK Government, London.

13. UK Government, (2017), 'Commonwealth Development Corporation Act 2017', The National Archives on behalf of the UK Government, London.

14. Department For International Development, (June 2011), 'Written statement to Parliament: Andrew Mitchell on the reform of CDC Group plc', UK Parliament, London.

15. BII, (November 2024), 'Pioneering catalytic capital: A decade of learning', [page 6], BII, London.

16. CDC Group plc, (2017), 'Investing to transform lives: Strategic framework 2017–2021', CDC, London.

17. Independent Commission for Aid Impact, (2019), 'ICAI review of CDC's investments in low-income and fragile states', ICAI, London.

18. CDC Group plc, (2017), 'Investing to transform lives: Strategic framework 2017–2021', CDC, London.

In 2021, CDC introduced its Kinetic portfolio through which it invests in and manages concessional investment strategies and blended finance (i.e. using public funding to reduce the risk of, or increase the returns on, investments). This portfolio allowed CDC to pursue interventions with a higher risk tolerance. To date, CDC/BII has funded the following three major facilities through the Kinetic portfolio:

i. The Climate Innovation Facility: a £240m facility, launched in 2021 through a partnership with the FCDO, which supports the scale-up of technologies to help communities deal with the impacts of climate change
ii. The Mobilisation Facility: a £100m facility, announced in September 2024, to boost the flow of private capital to meet the twin challenges of development and the climate emergency
iii. The Africa Resilience Investment Facility: a £50m facility, announced in February 2025, to unlock more finance to grow high potential businesses in the African countries that find it hardest to attract commercial investment[19]

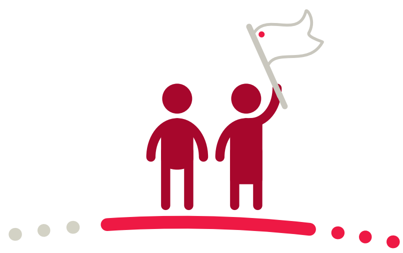
In 2022, CDC was renamed British International Investment[20] and a new strategy for 2022-26 was introduced.[21] The 2022-2026 strategy commits to three new strategic objectives; namely that CDC's impact is productive, sustainable and inclusive. This strategy largely maintains the previous geographical focus and includes a commitment to invest up to £500m of climate finance in South-East Asia between 2022 and 2026 as part of a commitment to ensure 30% of investments are focussed on climate change. This strategy reorganises and evolves the focus sectors for BII investments around the following three core areas:

i. Infrastructure and climate change
ii. Services, manufacturing, agriculture, real estate and construction, technology and telecommunications (referred to as SMART industries)
iii. Financial services

This strategy also commits BII to expand its Catalyst portfolio investments to 10%-15% of its overall portfolio by 2026 and that 25% of all new investments will qualify as gender-focussed under the 2X Challenge. The strategy also marginally increases BII's return target across its total portfolio to a minimum of 2% before costs.[22]

In 2022, BII also introduced a new investment policy for 2022-26, which sets out its current approach to promoting development impact. This involves producing a multi-dimensional impact score for each investment, which is then used as an input into investment decisions and to help monitor impact across investments (an annual average aggregate impact score for BII is reported). Building on CDC's investment strategy, this impact score combines the following elements:

i. Productive score: measures the extent to which the investment addresses the biggest developmental needs, responds to economic growth constraints and catalyses markets
ii. Sustainable score: measures the extent to which the investment contributes to a greener planet (has an emphasis on emissions, energy efficiency and climate finance)
iii. Inclusive score: measures the extent to which the investment reaches people who are poor or otherwise marginalised (has an emphasis on reaching people on low-incomes, a country's poverty and income levels, and reaching other excluded groups, such as women and Black-African owned and led businesses)



19. British International Investment, 'Kinetic' [web page, accessed May 2025], BII, London.

20. This name change seems to have largely been a re-branding exercise as a major strategic shift in BII's operations does not seem to have occurred.

21. British International Investment, (2022), 'Productive, Sustainable and Inclusive Investment: 2022 – 26 Technical Strategy', BII, London.

22. Given that BII's operating costs were 1.45% of portfolio value at the end of 2022, this level of return is marginally above the level required to cover its costs and break even.

5. How BII is financed

Between 1995 and 2015, CDC did not receive capital injections from the government and operated as a self-financing investment fund. Since restarting capital contributions to BII in 2015, the government has made annual capital contributions to BII, and these have totalled £5.7bn to date (or an average of £570m a year),[23] equivalent to around 4% of UK Official Development Assistance (ODA) over this period.[24] These capital contributions have helped BII to significantly expand the value of its total investment portfolio from £2.2bn in 2012 to £7.3bn in 2023.

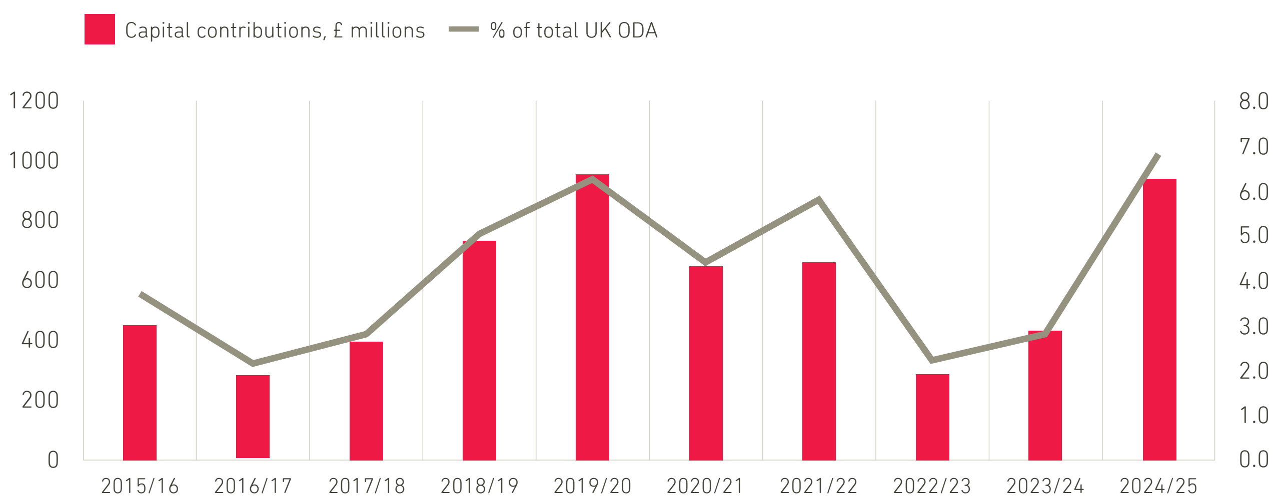
Capital injections to BII are categorised by the Treasury as 'financial transactions' and an asset which could be sold, which means they do not count towards the government's budget deficit (in contrast to grant capital, which does count towards the deficit), although they do count towards the aid budget. As a result, and given the significant budget deficits the government has faced in recent years, the FCDO has been encouraged by the Treasury to continue to capitalise BII.

Research by the Center for Global Development concluded that recent targets set by the Treasury for the FCDO's levels of spending on financial transactions have been a significant driver of investments in BII and other similar organisations.[25] This suggests that recent decisions to provide UK ODA funding to BII may not have been wholly made on the basis of development and poverty reduction considerations and evidence-based analysis that this form of aid delivers greater impact than alternative uses.

BII can also utilise reflows from selling its stakes in companies or debt repayments to make new investments. The levels of such reflows are also shaped by the returns BII is able to make on its investments. Between 2018 and 2024, BII made a weighted average return of 5.1% on its investments (in Sterling terms, albeit with significant annual volatility).[26 27] This is clearly above the 3.5% return floor in place for the Growth portfolio between 2017 and 2022 and the 2% overall return floor in place for the most recent strategy.

Interestingly, in 2022, BII's Catalyst portfolio – which aims to make more developmentally-focussed and transformative investments, and tolerates losses in order to do so – started to outperform the Growth portfolio in terms of returns.[28] BII has made the case that the relationship between its returns and development impact is a complex one which requires in-depth exploration.[29] Nevertheless, the level of returns BII is currently achieving, especially on its Catalyst portfolio, raises questions about whether it is taking the necessary risks associated with reaching new geographies and companies.

Figure 1: UK government capital contributions to BII, £ millions and % of UK ODA



23. Foreign, Commonwealth and Development Office, 'Development Tracker: British International Investment (BII) Programme of Support in Africa, South Asia, Indo-Pacific & Carib (2015-2027)' [web page, accessed May 2025], UK Government, London.

24. This figure is calculated by totalling CDC/BII capital contributions for the financial years 2015/16 to 2023/24 and dividing it by total ODA for the calendar years 2015-2023.

25. Mitchell, I., Hughes, S. and Wickstead, E., (2023), 'UK Development Finance beyond ODA: Mapping and Assessing the UK's Non-grant Development Finance', Center for Global Development, Washington DC.

26. Returns ranged from -6.2% in 2019 to 11.2 in 2021 over this period.

27. British International Investment, (2025), 'Bold about impact: Annual review 2024', BII, London.

28. British International Investment, (September 2023), 'Summary minutes of a meeting of the Board of British International Investment plc (BII)', BII, London.

29. British International Investment, (2022), 'Risk, return and impact: Practical thinking on investing for development', BII, London.

6. The changing character of BII investments

The recent strategies that have been introduced to guide BII's operations have caused significant changes to the nature and focus of its investments and its portfolio of investee firms.

The FCDO reports that across all of its investment instruments, 70% are "equity" investments; a much higher proportion than other DFIs. The FCDO reports that the comparative figures for other DFIs include 44% for DEG (the German DFI), 34% for FMO (the Dutch DFI), 21% for Proparco (the French DFI) and 3.5% for US DFC (the US DFI).[30] The significance of this is that, because equity investments can help to shield companies from shocks (given that they don't need to make debt payments) and are higher risk than other forms of investments, BII is therefore prepared to take more risk in its use of investment instruments than other DFIs.

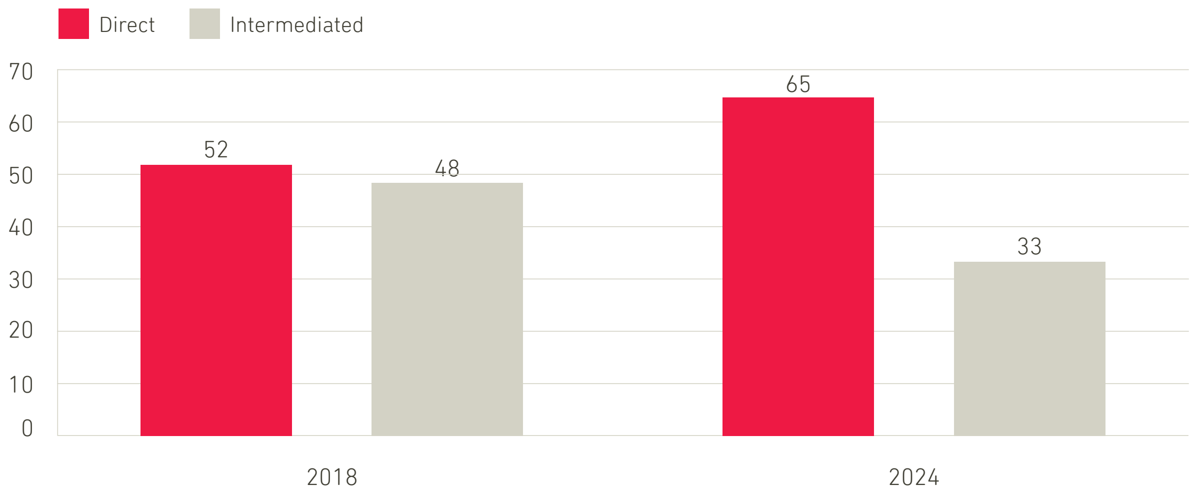
BII operations have been increasingly re-focussed on direct investments, which provides BII with greater control and oversight of its investments. BII restarted direct investments (equity and debt) in 2015, and by 2018 52% of its portfolio by value consisted of direct investments, a figure which increased to 64% in 2024 (35% direct equity and 29% direct debt). In contrast, intermediated equity investments have moved from dominating the portfolio in 2012 to becoming 48% of the portfolio in 2018 and just 33% of the portfolio in 2024. Nevertheless, due to the significant increase in BII's portfolio, investments through intermediated equity have climbed marginally in cash terms, from just over £2bn in 2018 to around £2.5bn in 2024.[31]

The emergence of direct investments as the main channel for BII support has, in turn, led to **a growth in the average size of BII's investee firms, as measured by employee numbers.** At the end of 2022, BII's direct investments were held by 185 companies[32] (each of which received an average of £24m).[33] In contrast, during the same period, 245 funds managed intermediated equity, BII's primary modality to target firms of fewer than 300 employees (averaging £13m per fund).[34] Across BII's overall 2021 portfolio, 54% of all companies had fewer than 300 employees (which DFIs in general define as small- and medium-sized enterprises or SMEs), and of these 80% were reached through intermediated investments (mainly banks and other providers of financial services). Only 20% of all companies in BII's 2021 portfolio had fewer than 50 employees.[35]

Infrastructure (predominantly energy) and financial services have become the dominant sectors BII supports, alongside its renewed focus on food and agriculture, health, and technology and communication, with sectors such as education, manufacturing, construction and real estate becoming less prominent.

The infrastructure sector, primarily energy, has rapidly grown as a proportion of BII's portfolio by value, from 17% in 2012 to 27% in 2018 and 29% in 2024. Between 2019 and 2023, infrastructure comprised 27% of BII's new investments by value.

Figure 2: BII investment channels, % of portfolio by value



30. Foreign, Commonwealth and Development Office, 'Investment for Development: the UK's strategy towards development finance institutions: FCDO Written Evidence', International Development Committee, UK Parliament, London.

31. British International Investment, 'Key data' [web page, accessed July 2025], BII, London.

32. This figure was calculated using portfolio data from BII 'Key data' [web page, accessed May 2025] and the annual account data.

33. British International Investment, (2023), 'Investing for a better tomorrow: Annual accounts 2022', [p.9], BII, London.

34. This figure was calculated using portfolio data from BII 'Key data' [web page, accessed May 2025] and the annual account data.

35. Data provided by BII in response to a Freedom of Information request [Question 5] for this study in June 2023.

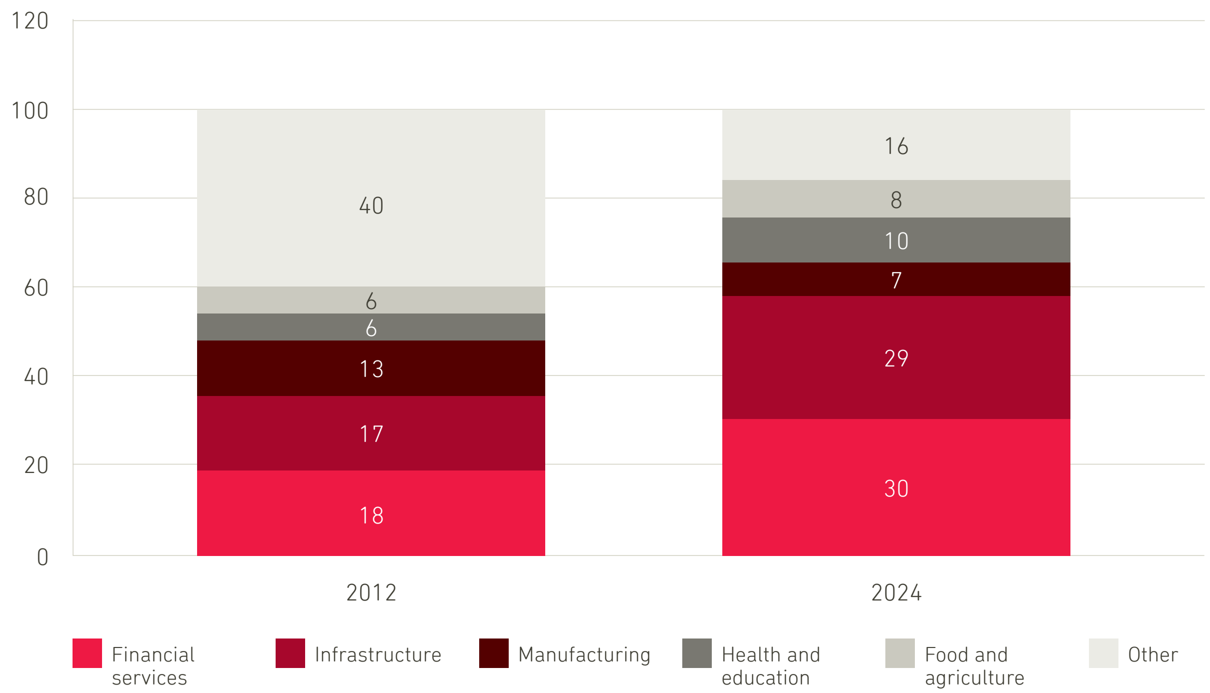


Figure 3: BII sector focus, % of portfolio by value

The financial services sector, including investments in banks and other financial intermediaries, has long been a priority for BII, but it has rapidly grown as a proportion of BII's portfolio by value, from 18% in 2012 to 22% in 2018 and 30% in 2024. Since these financial service providers then lend to businesses, these BII investments reach a diverse range of sectors and have a strong focus on SMEs. BII has recently shifted its financial services investments towards directed lending (which requires lenders to target services at specific groups) and specialised lenders. This has been done to address concerns raised by a 2019 evaluation of BII's financial services portfolio that investee financial institutions weren't adequately focussing on supporting SMEs and women-owned businesses.[36]

Between 2012 and 2024, some sectors have seen their share of BII's portfolio by value notably increase, while others have seen it decrease. Health and education has increased its share marginally from 6% to 7%[37]. However, manufacturing has decreased its share from 13% to 7% and construction and real estate from 7% (in 2013[38]) to 3%, with education alone reducing from 3% (2018[39]) to 1%. Over this period food and agriculture's share has remained at 6%.

BII's investments have become increasingly focused on Africa. However, BII's investments also seem to be increasingly concentrated in a small group of middle-income countries and decreasingly focused on least developed countries and lower-income countries.

36. Genesis Analytics and IPE Global, (2024), 'Evaluating BII's Financial Services Portfolio: Synthesis Report: Key findings and lessons from phases one and two', EA and IPE, India and Nairobi.

37. Education only comprised one percentage point of the total in 2023.

38. CDC Group plc, (2013), 'Annual Accounts 2013' [p. 4], CDC, London.

39. CDC Group plc, (2018), 'Annual Review 2018' [p.32], CDC, London.

In 2012, 46% of CDC's portfolio by value was in Africa[40], a figure which increased to 52% by 2018[41] and 60% in 2024.[42] Of BII's total investment portfolio in Africa in 2023, around a quarter by value (or 15% of the BII portfolio) was in North Africa and three quarters by value (or 45% of the BII portfolio) was in sub-Saharan Africa.[43]

Detailed data on BII's current portfolio by country reveals a significant degree of concentration of BII investments in a small number of middle-income and emerging economies, with limited focus on lower-income and fragile countries.[44] At the end of 2024, 27% of BII's portfolio by value was invested in India, with the five largest recipients of BII investments (India, Egypt, Nigeria, South Africa and Kenya) constituting 53% of the total (although it is 64% excluding investments not reported by country). These are all middle-income countries, albeit with significant numbers of people living in extreme poverty.[45] Although available annual BII investment data by country is only publicly available for country-specific direct investments (around half of BII's total commitments by value between 2015 and 2023), the concentration of the top five investee countries

40. CDC Group plc, (2012), 'Annual Report and Accounts 2012' [p.30], CDC, London.

41. CDC Group plc, (2019), 'Making a difference: Annual review 2018', CDC, London.

42. British International Investment, (2024), 'Creating impact together: Annual review 2023', BII, London.

43. These figures are based on an analysis of the latest data published by BII in the section 'Country breakdown of our portfolio' [accessed May 2025]. This details the portfolio by country for 97% of investments by value (US$206m is reported collectively for countries with fewer than three investments).

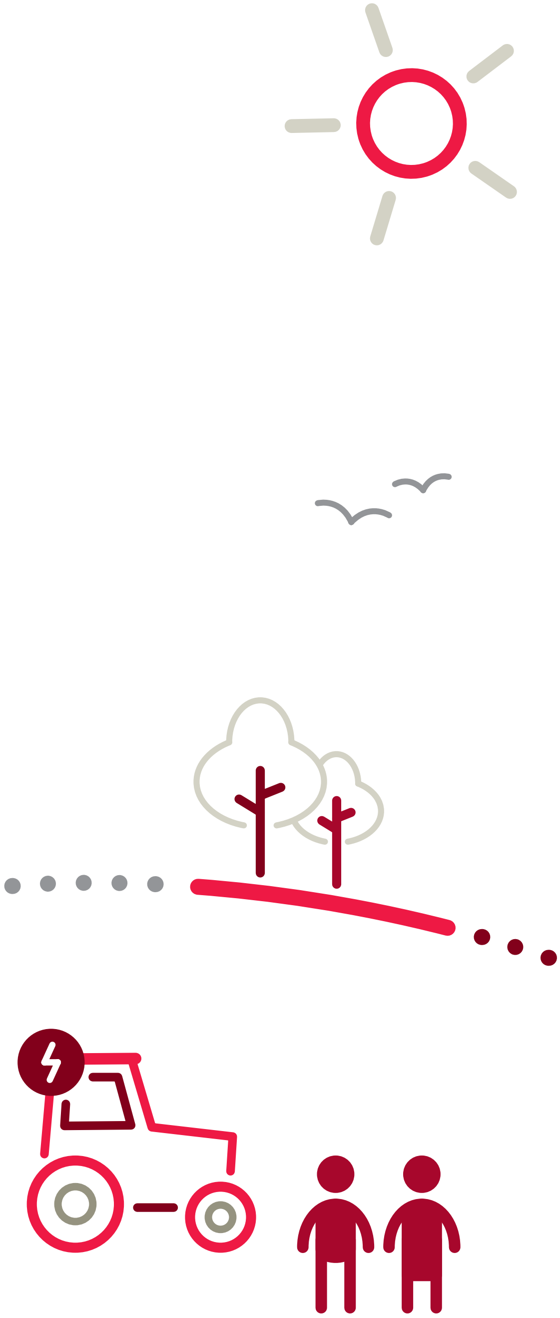
44. Ibid.

45. Based on World Bank data from the early 2020s India and Nigeria alone are home to around 30% of the global population of people living in extreme poverty.

in this segment of BII investments has significantly grown, from an average of 57% between 2015 and 2018 to 70% between 2019 and 2023.[46]

Data on BII's portfolio by individual country at the end of 2024 shows that 14.3% by value (17% excluding investments not reported by country) is invested in least developed countries, 10.7% by value (12.6% excluding investments not reported by country) in fragile states[47] 4.2% by value (5% excluding investments not reported by country) in fragile states excluding Nigeria and 36% (43% excluding investments not reported by country) in what is collectively known as 'lower income and fragile countries'[48] (one of BII's key target groups). However, data on BII's country-specific direct investments shows that the proportion of this segment of BII investments in least developed countries[49] and "lower-income and fragile countries"[50] as a group fell on average between 2015 and 2023. Although the share going to fragile states alone increased[51] over this period, this was wholly driven by increased investments in Nigeria as the share going to other fragile states fell.[52]

This analysis suggests that although there are signs of BII re-focusing its investments on finance-constrained regions such as Africa and in a wider range of countries, it still faces significant challenges in targeting low-income, fragile and least developed countries. The 2024 White Paper on International Development (published under the previous government) included a commitment for BII "to make over half of its investments in the poorest and most fragile countries by 2030"[53] , but it is not clear if or how this commitment may be taken forward under a new government. Even if it is implemented, this may well represent a modest increase in investments in these countries given that their current portfolio share (excluding investments not reported by country) is 43%.[54]



46. Data drawn from BII annual reviews 2015-23. See BII, 'Annual Review Archives' [web page, accessed May 2025], BII, London.

47. These are defined as the 41 countries categorised by the World Bank as experiencing fragile and conflict situations in the financial year 2024. See World Bank, 'FY24 List of Fragile and Conflict-affected Situations', World Bank, Washington DC.

48. This refers to those countries categorised as fragile states by the World Bank for FY2024 and/or those countries eligible to receive funding from World Bank-IDA during its 17th funding round. This is consistent with the definition applied by BII when it made a new country-targeting commitment in the 2024 UK Government's White Paper on International Development.

49. Our analysis of this data suggests that least developed countries received an average of 25% of new BII country-specific investments by value between 2015 and 2018, a figure which fell to 22% between 2020 and 2023.

50. Our analysis of this data suggests that these countries received an average of 60% of new BII country-specific investments by value between 2015 and 2018, a figure which fell to 42% between 2020 and 2023.

51. Our analysis of this data suggests that these countries received an average of 16% new BII country-specific investments by value between 2015 and 2018, a figure which increased to 18% between 2020 and 2023.

52. Excluding Nigeria from this group, new BII investments in fragile states fell from an average of 11% of total country-specific investments between 2015 and 2018 to just 7% between 2019 and 2023.

53. Foreign, Commonwealth and Development Office, (2023, updated 2024), 'International development in a contested world: ending extreme poverty and tackling climate change, a white paper on international development', UK Government, London.

54. These figures are based on an analysis of the latest data published

7. BII's crosscutting strategies and policies

This section focuses on some of the key policy areas in which BII has set out new crosscutting strategies and policies, including in relation to tracking responsible investing, climate change, development impact, gender equality, promoting black African owned and led companies, transparency, tax practices and investments in education and health. It presents an overview of the key policy and strategy changes BII has made in these areas as well as analysis on the progress being made in delivery and the ongoing challenges BII faces to implementing its commitments and meeting its responsibilities.

Responsible investing

BII has established a range of environmental and social and business integrity standards for its investee companies to meet. These standards have evolved significantly over the last decade, informed by frameworks such the UN Principles for Responsible investment to which BII is a signatory. The current iteration of these standards is presented in BII's 2022 Policy on Responsible Investing (PRI) and draws mainly on common standards applied by other DFIs. BII requires the core standards set out in the PRI to be met at the point of investment, or for a legally-binding action plan (including metrics to track compliance and a timeline for implementation) to be put in place to ensure compliance during the investment. BII also undertakes enhanced human rights assessments in situations which are viewed to be high risk.[55]

BII's PRI also sets out a commitment to "the fair and transparent assessment of adverse impacts resulting from our investments", and BII operates a reporting and complaints mechanism. **However, a recent parliamentary review of BII's work judged that this mechanism is not independent of BII and is essentially an internal complaints mechanism**, raising concerns about how effectively it can protect the rights of those negatively affected by BII investments. These protections seem even less clear for those impacted by intermediated investments.

An additional significant weakness of **BII's PRI is that it does not apply to companies in which BII is investing indirectly via a financial intermediary**.[56] However, when making investments in funds, BII sets out requirements for the funds to cascade applicable environmental and social requirements to their investees (including those in line with national laws, International Labour Organization Core Conventions and the International Finance Corporation's Environmental and Social Sustainability Performance Standards). These requirements are not only applicable to the sub-borrowers that are receiving BII's funds, they also apply to others within the fund.

Although there hasn't been a detailed evaluation of BII's investment standards, a 2019 review of BII by the Independent Commission for Aid Impact (ICAI) found that it "meets industry standards on ESG [environmental, social and governance]", it has had "success in encouraging ESG improvements", and it has a strong reputation for "encouraging best practice on ESG". However, there has been limited transparency from BII around investees' compliance with ESG standards, as BII's website only provides high-level ESG summaries for more recent direct investments and offers minimal information on intermediated investments and no public reporting on action plan implementation.

Climate change

In 2020 BII published its first climate change strategy - 'Investing for clean and inclusive growth'. This strategy made two core commitments: that BII's investment portfolio will reach net-zero emissions by 2050, and that new investments will only be made where they support "a country's unique plan to meet its ambition to become a net-zero economy by 2050". To help facilitate the delivery of these commitments, BII's 2022-26 investment strategy committed to ensure that 30% of all its new investments by value would qualify as climate finance by providing support for climate change adaptation and mitigation, including through an allocation of £500m for investment in the Indo-Pacific region. In 2023, 37% of BII commitments were categorised as climate finance, with a strong focus on renewable energy investments.

BII also has a fossil fuel policy, which sets out what types of fossil fuel investments it will stop undertaking and which are allowable as part of its support for net-zero. The investments that are not allowed include those focused on coal (BII no longer has any coal projects in its portfolio), oil (including exploration and production, pipelines, refineries, petrol stations, heavy fuel oil power plants and diesel mini-grids), gas (including exploration and production and import/export infrastructure and processing facilities) and transport that is primarily used for moving fossil fuels.[57]

However, BII is continuing to make investments in oil and gas projects that are allowable under its fossil fuels policy (mainly oil and gas power plants, carbon capture

by BII in the section 'Country breakdown of our portfolio' [accessed May 2025].

55. In its submission to parliament - 'IDC's Investment for Development Inquiry – Submission by BII' [p.9, para. 26] - BII emphasises that "Enhanced human rights assessments will be undertaken in situations which are viewed to be high risk".

56. See British International Investment, (2022), 'Policy on Responsible Investing', BII, London. In footnote 1 of the policy, BII states: "Investee is defined as a company or other entity (including a fund or a financial institution) to which BII or one of our investment holding subsidiaries has made available a financial instrument. A company or other entity to which an Investee makes available a financial instrument is not an Investee for the purposes of this Policy."

57. British International Investment, (2020), 'Our fossil fuel policy', BII, London.

infrastructure and industries that utilise fossil fuels). As a result, **BII reported that in 2024, 6% of its portfolio by value was exposed to fossil fuels**.[58] In addition, BII has not committed to a specific timeline for ending fossil fuel investments and divesting from those it already holds.

Tracking development impact

As described in Section 3, the recent reforms to BII and its predecessor CDC have included an emphasis on identifying ways to better target and track development impact across its investments. In 2013, a Development Impact grid was introduced, which BII staff used to pre-screen investments to assess their potential for reaching the most investment-constrained countries and the sectors most likely to create jobs. A 2019 review by ICAI found that this grid was a useful innovation but that it was "a relatively blunt instrument for assessing potential development impact, with a narrow focus on jobs" and also emphasised the number of jobs created rather than their quality.[59] The new Impact Score methodology (introduced in 2022), which pre-screens investments across a wider range of criteria in relation to how productive, sustainable and inclusive investments are, has broadened BII's approach to assessing the potential impact of investments. However, the Impact Score could be broadened further to include criteria related to all ESG principles (e.g. there is no criterion related to job quality), and the emphasis on inclusion could be broadened to include stronger indicators on gender and reaching people on low incomes and those who are marginalised.

Other changes which focus on the development impact of CDC/BII investments are the requirement to produce development impact cases (beginning in 2018) to outline the planned impact for all new investments, and to utilise impact dashboards (beginning in 2019) to help track development impact during investments. ICAI's 2021 follow-up assessments to its original 2019 review found that these tools, together with added capacity of staff working on impact, were helping to promote an emphasis on development impact when BII reviewed and selected investments. Similarly, a recent independent review of BII's impact monitoring system judged BII to be one of a small group of investment institutions with an "advanced approach".[60]

However, a key impact measurement challenge that BII still needs to make progress on relates to how it tracks who is being reached by its investments and the degree to which people living in poverty or people who are marginalised have benefitted. ICAI's 2021 follow-up assessments to its original 2019 review **identified some weaknesses as regards the "extent to which 'who benefits' is considered, particularly in terms of the income groups being reached"**.[61]

Similar issues have been raised in recent major evaluations of BII's portfolio. The 2023 evaluation of the BII's Industries, Technology and Services (ITS) portfolio found **there is limited evidence as to whether investees reach low-income groups, and that evidence is not always collected to demonstrate progress and performance against the impact thesis**, making it difficult to definitively state whether ITS investments are delivering their intended impact.[62] The 2021 evaluation of BII's Financial Services portfolio also **identified concerns about insufficient data being reported by investees on the underlying households and firms being reached and the impact of investments on these groups**.[63]

Gender equality

BII published its first public commitment to investing in women's economic empowerment in 2018. This commitment included an emphasis on:

i. supporting women's leadership
ii. improving women's job quality
iii. promoting women's access to finance and entrepreneurship
iv. applying a 'gender lens' to products and services.

One of the main ways in which BII has been working to put these commitments into practice is through its participation in and support of the 2X Challenge, which was launched at the G7 Summit in Canada in 2018. The 2X Challenge sets out a range of principles and criteria to be applied to assess and promote gender-sensitive investing, which BII played a leading role in helping to develop. The basic criteria include a requirement for investees to meet minimum governance and accountability criteria and to undertake assessments of fundamental environmental and social standards as they relate to women (including a focus on gender risks, such as gender-based violence and harassment), to meet at least one of the other core six 2X criterion and make a time-bound commitment to meet an additional criterion if only one is met.[64]

In its 2022–26 strategy, BII committed to incorporate 2X criteria into its impact score for all its investments and

58. British International Investment, (2024), 'Bold about impact: Annual review 2024', BII, London.

59. Independent Commission for Aid Impact, (2019), 'CDC's investments in low-income and fragile states: A performance review', ICAI, London.

60. Blue Mark, (2024), 'Verifier Statement: Independent verifier report, prepared for British International Investment', Blue Mark, Delaware.

61. Independent Commission for Aid Impact, (2021), 'ICAI follow-up review of 2019-20 reports', ICAI, London.

62. Foreign, Commonwealth and Development Office and British International Investment, (2024), 'Evaluating the Impact of BII's Industries, Technology and Services (ITS) Portfolio: Executive Summary', FCDO/BII, London.

63. Genesis Analytics and IPE Global, (2024), 'Evaluating BII's Financial Services Portfolio: Synthesis Report: Key findings and lessons from phases one and two', EA and IPE, India and Nairobi.

64. The six criteria are: 1) Entrepreneurship and ownership (including that at least 51% of investees are women-owned and founded by women); 2) Leadership (including share of women in senior management and share of women on the Board or Investment Committee); 3) Employment (including share of women in the workforce and meeting a quality employment indicator beyond compliance); 4) Supply chain (including a commitment to promoting women in the supply chain and meeting one quality supply chain indicator beyond compliance); 5) Products and services (including promoting products or services that enhance the well-being of women/girls or drive gender equality); 6) Portfolio (includes making investments through financial intermediaries that are aligned with the 2X criteria).

ensure that 25% of its commitments over the strategy period qualify under the 2X Challenge. In its 2023 annual review, BII reported that in the first two years of the strategy period, 38% of its investments were 2X qualified. For investments from January 2025 onwards, BII has publicly reported the 2X qualifying criteria that have been met for each relevant investment, and the collection of 2X implementation data is part of BII's annual monitoring reviews and impact score tracking. However, we are not aware of any independent evaluation of the 2X criteria to test BII's effectiveness and impact in promoting women's economic empowerment. Parliament's International Development Committee has also questioned whether BII's 2X target should be more ambitious (especially as it has already been exceeded).[65]

BII collects data on the gender split of the direct jobs in its portfolio of investment companies, which it reports on annually. **The proportion of these jobs held by women has fallen in recent years, from 30% in 2018 to 28% between 2019 and 2022 and 26% in 2023 and 24% in 2024**. This suggests there is a lot more BII could be doing to create jobs for women through its investments. BII could also do more to publicly and systematically report on its wider gender impacts, including its support for women owned and led businesses and in relation to relevant elements of the decent work agenda, such as addressing pay inequity, job security and women's workplace safety and adapting work practices to respond to the rights of women and to support gender equality (e.g. flexible hours, paid leave and support services).

Promoting Black-African ownership and leadership of companies

BII's 2022-26 strategy (published in December 2021) included a commitment to "promoting and increasing representation of black African-owned and led businesses in our sub-Saharan Africa portfolio". BII committed to progress on this commitment by designing and implementing an investment framework and set of indictors. This commitment provides a welcome opportunity for BII to promote the development and growth of local entrepreneurs and businesses. **BII is yet to systematically report on progress in measuring and meeting this commitment across its investments**. However, a recent evaluation of BII's ITS portfolio did provide an insight into BII's response to this commitment. It found that four commitments in the ITS portfolio in 2022 were to Black African owned and led businesses, representing 33% of commitments made in sub-Saharan Africa that year.[66]

It is also the case that BII could establish related commitments for its investments outside Africa and do much more to set broader commitments around its support for businesses established and owned by Indigenous entrepreneurs, including the share of SMEs and inclusive businesses (e.g. cooperatives or social enterprises) in individual countries and its overall portfolio.

Transparency

One of the main challenges in scrutinising BII's work has been the limited levels of transparency around its investments, as illustrated by its performance in Publish What You Fund's 2023 DFI transparency assessment, which ranked BII twelfth among 21 non-sovereign DFIs, with a score of 26.5/100 (a score of 100 indicating high transparency).[67]

In response to a 2023 review[68] of BII by parliament's International Development Committee, the FCDO committed to publish a transparency roadmap to guide action to make BII the most transparent bilateral DFI in the world. This roadmap was published in December 2023, and it set out commitments to increase data timeliness, quality and usability, improve transparency on the impact of investments, and improve transparency on managing ESG risks.[69] In an update, published in December 2024, BII reported that it had delivered on all 33 of the roadmap's commitments.[70] These changes helped BII to be assessed as the most transparent bilateral DFI, and most transparent of all DFIs (albeit with a modest score), in Publish What You Fund's DFI Transparency Index 2025.[71] **However, BII has made no further commitments on transparency, which raises questions about its ambitions in this area**.

One of the areas where BII has had limited transparency is ESG risk and monitoring. BII's website features high-level ESG summaries for direct investments made since 2012, and ESG risk categories and summary explanations are now published for investments screened and committed after January 2023, although only where permission has been granted by investees.[72] However, BII does not disclose ESG impact assessments, nor does it provide any indication of whether enhanced human rights, supply chain or other specific assessments have been undertaken for investments. In addition, these ESG reporting requirements are not applied to intermediated investments (i.e. those made by funds supported by BII), on which very limited ESG information is made public.

65. House of Commons International Development Committee, (2023), 'Investment for development: The UK's strategy towards Development Finance Institutions, Ninth Report of Session 2022–23', UK Parliament, London.

66. Foreign, Commonwealth and Development Office and British International Investment, (2024), 'Evaluating the Impact of BII's Industries, Technology and Services (ITS) Portfolio: Executive Summary', FCDO/BII, London.

67. Publish What You Fund, 'DFI Index' [web page, accessed May 2025], PWUF, London.

68. Foreign, Commonwealth and Development Office and British International Investment, (2024), 'Evaluating the Impact of BII's Industries, Technology and Services (ITS) Portfolio: Executive Summary', FCDO/BII, London.

69. British International Investments, (2023), 'Transparency Roadmap', BII, London.

70. British International Investments, (2023), 'Transparency Roadmap Update', BII, London.

71. PWYF (2025). DFI Transparency Index 2025, Publish What You Fund, London.

72. Ibid.

Tax practices

BII has long faced criticism on the investments it makes in companies and funds registered in tax havens and other low tax jurisdictions. To date, these critiques have focused mainly on the continued extensive use of such arrangements by the private equity firms through which BII makes its intermediated investments as well as those of many companies it invests in. However, our analysis suggests that these challenges are also highly relevant to direct investments as **49% of currently active direct equity investments go to companies domiciled in the UK, G7 or known tax havens**.[73] Such practices raise concerns that, despite BII investees paying US$2.42bn in taxes to partner country governments in 2023[74], the full benefits of BII investments aren't captured by the countries in which BII's investments are actually made because these countries struggle to fully tax the profits that BII investee companies generate, thereby limiting their contribution to public investment and development impact.

BII's most recent policy on addressing these issues is presented in its 2022 *Tax strategy and policy on the payment of taxes and the use of offshore financial centres*.[75] This states that BII's preference is to invest directly in a country or region where an investee company is located, that it will only use offshore financial centres where such practices will help to mobilise additional capital into businesses in LMICs, and that, in such cases, it will only use jurisdictions that comply with international standards on tax governance and transparency. Nevertheless, a recent review by the parliament's International Development Committee recommended that BII move away from the practice of "channelling money through low-tax jurisdictions that ultimately promote tax savings for those intermediary agents".[76]

Investments in education and health services

Civil society has long standing concerns about the investments BII has made in providing education and health services. These concerns have focused on a range of challenges related to these investments, including their support to for-profit service provision models which limit access to low-income groups[77] and undermine efforts to develop universal public services.[78]

Other concerns have been raised on the safeguarding of children in investee schools[79] and the human rights abuses and over-charging of patients in investee hospitals.[80]

In response to these concerns, BII has evolved its policy on investments in the education and health sectors. BII's 2022-26 strategy states that its future education sector investments will focus on higher education, technical education and education technology companies, and that it will not prioritise new investments in kindergarten to twelfth grade (K-12) private education.[81] Additionally, the strategy states that BII will evolve its health sector focus towards investments that have a positive impact on the overall healthcare system[82] and do not undermine public health services, and that it will only invest in hospitals that support "a significant proportion of users who are on government payment schemes or on low incomes". The recent evaluation of BII's ITS portfolio reported that BII has not made a direct investment in a private hospital since October 2021.

Nevertheless, concerns have been raised about BII's investments in K-12 schools through its intermediary investments[83]; that BII's strategy in health is vague and lacks accountability, allowing it to continue to invest in private hospitals that undermine rights and universal access to healthcare[84]; and that more recent concerning health cases suggest BII has not adequately responded to safeguarding concerns.[85]

73. Bond reviewed all of BII's active direct investments and identified where each of these companies are legally registered (domiciled) for tax purposes.

74. British International Investment, (2024), 'Creating impact together: Annual review 2023', BII, London.

75. British International Investment, (2022), 'Tax strategy and policy on the payment of taxes and the use of offshore financial centres, BII, London.

76. House of Commons International Development Committee, (2023), 'Investment for development: The UK's strategy towards Development Finance Institutions, Ninth Report of Session 2022–23', UK Parliament, London.

77. Oxfam, 'Sick Development' [web page, accessed May 2025], Oxfam, Oxford.

78. Global Justice Now, (January 2021), 'Healthcare for all? How UK aid undermines universal public healthcare' [web page, accessed May 2025], GJN, London.

79. House of Commons International Development Committee, (2017), 'DFID's work on education: Leaving no one behind? First Report of Session 2017–19', UK Parliament, London.

80. Oxfam, 'Sick Development' [web page, accessed May 2025], Oxfam, Oxford.

81. British International Investment, (2022), 'Productive, Sustainable and Inclusive Investment: 2022 – 26 Technical Strategy' [p21], BII, London.

82. Including an emphasis on the manufacturing of medicine, vaccines, devices and equipment; pharmacy and retail logistics; treatment and delivery; and early-stage funding for research and development and health-technology companies.

83. House of Commons International Development Committee, (2023), 'Investment for development: The UK's strategy towards Development Finance Institutions, Ninth Report of Session 2022–23', [Paragraph 89], UK Parliament, London.

84. Oxfam, (2023), 'Briefing Paper: Sick Development: How rich-country government and World Bank funding to for-profit private hospitals causes harm, and why it should be stopped', Oxfam, Oxford.

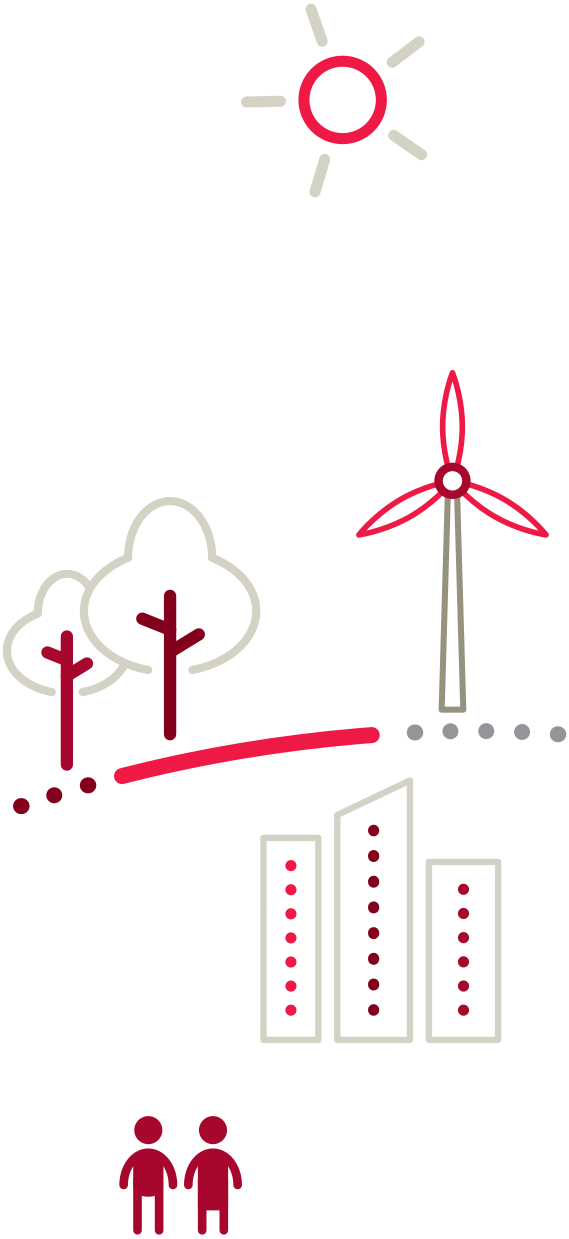
85. Bloomberg UK, (16 January 2025), 'World Bank funded hospitals in Africa and Asia that "detained patients and denied care"' [web article, accessed May 2025], Bloomberg, London; House of Commons International Development Committee, (23 January 2025), published correspondence from Sarah Champion MP, Chair of the IDC, to Leslie Maasdorp, CEO of BII, UK Parliament, London; House of Commons International Development Committee, (5 February 2025), published correspondence from Leslie Maasdorp, CEO of BII, to Sarah Champion MP, Chair of the IDC, UK Parliament, London; Bloomberg UK, (14 February 2025), 'UK Lawmaker "Concerned" That Hospitals Are Detaining Patients' [web article, accessed May 2025], Bloomberg, London.

8. Conclusion

This briefing illustrates that, ahead of and alongside receiving significant capital contributions from the government over the last decade, BII has undertaken some notable reforms which have changed the focus and character of its investments in LMICs. These changes have begun to address the critical challenges the institution faces in fulfilling its development role and justifying the public resources it has received. Nevertheless, this briefing also illustrates that BII has a long way to go to fully address these challenges, as significant concerns remain about its approach to the following areas:

- **Supporting poorer and more fragile countries.** Only 17% of BII's investment portfolio is in least developed countries (compared to 52% for FCDO bilateral programmes) and only 12.6% (5% excluding Nigeria) in fragile states. In addition, a significant (and potentially growing) concentration of BII investments are being made in a small number of large middle-income economies (with just five countries receiving 64% of its country-reported investments by value).
- **Responsible investing.** BII does not publicly report on the compliance of investees to ESG standards, and it has failed to establish an independent complaints mechanism or to adequately apply safeguards (in line with peers such as the IFC) to intermediated investees.
- **Tackling climate change.** 6% of BII's portfolio is still exposed to fossil fuels, and BII has set an unambitious target of 2050 for achieving net zero.
- **Tracking development impact.** BII has made limited progress in generating data to understand the benefits of its investments for low-income groups, women and other people who are marginalised.
- **Promoting gender equality and decent work for women.** BII has made limited progress in creating jobs for women and has weak scrutiny of the actual gender impact of its investments.
- **Supporting Black-African owned and led businesses.** BII has yet to report systematically on commitments to expand investments in Black-African owned and led businesses.
- **Transparency.** Although BII has made valuable improvements to its transparency, it has weak reporting on ESG issues, limited reporting on intermediated investments and has not made commitments to further improve its transparency
- **Tax practices.** BII continues to channel significant volumes of investments to businesses registered in tax havens.
- **Investing in education and health.** BII's current strategy continues to allow investments in private services, which are exclusive, fail to protect consumers and undermine universal access to these services.

To address these identified challenges, the government should reconsider the level of public resources that BII continues to receive, especially given the significant constraints facing an aid budget that has faced repeated cuts over recent years. Any future public resourcing should be linked to BII completing fundamental reforms to its approach to promoting development, reducing poverty and tackling climate change.



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