Report

bond

Locally led development and development finance institutions: the case of British International Investment

The role of development finance institutions (DFIs) in advancing locally led development

Contents

Executive summary **4**

Key findings on BII's operations and impact 5

Recommendations 7

1. Localisation and locally led development **8**

What is localisation? 9

Who is 'local'? 12

2. Agency and resources **12**

1. Agency 13

1.1. Identifying local needs 14

Recommendations 16

1.2. Making decisions 16

Recommendations 18

1.3. Meeting local needs 18

Recommendations 22

1.4. Access to produced goods and services 22

Recommendations 25

2. Financial resources 25

2.1. Local ownership 26

Recommendations 31

2.2. Reaching the people most in need 31

2.2.1. Not the billionaires 32

2.2.2. Informal sector 34

2.2.3. SMEs and MSMEs 34

Recommendations: 37

2.3. Access to funding 37

Recommendations: 38

Annex 1: Biggest BII investment partners by volume (active investment commitments as of September 2025) 39

About Bond

Bond is the civil society network for global change. We bring people together to make the international development sector more effective. bond.org.uk

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Executive summary

The global development system has experienced significant shocks in recent years. There has been a dramatic reduction in Official Development Assistance (ODA), rising geopolitical tension which has put a strain on global collaboration, and intensifying climate disasters, conflict, debt, food insecurity and other crises. These shocks have escalated growing concerns about the effectiveness of the global development system and heightened the urgent need to make fundamental reforms to how the system functions and supports low- and middle-income countries (LMICs).

There is growing recognition that traditional donor-driven and externally led development models are failing to deliver sustainable, equitable outcomes, and local actors in LMICs should have more direct access to the resources and programmes intended to support them and greater decision-making power over both.

While the locally led development agenda has been a part of the development discourse for some time, this agenda has predominantly focused on the humanitarian sector and approaches for engaging civil society actors. Far less attention has been given to approaches to development cooperation that supports the private sector. This is particularly the case for development finance institutions (DFIs), which are mandated to support economic development and poverty reduction in LMICs through profit-making, private sector investments. Yet international donors are scaling up their support for a development agenda led by the private sector, and this is rapidly expanding the role of DFIs.

These trends are also apparent in the UK's evolving approach to development cooperation, which is placing a growing emphasis on the role of the private sector, and has seen the UK's DFI, British International Investment (BII), receive more than GBP £6 billion in capital contributions from the UK ODA budget since 2015. BII is about to publish its new strategy for 2027 onwards and is co-hosting (with the FCDO) the Global Partnerships Conference in May 2027, one of the key objectives being to 'shift the power' to support locally led development. This makes it an opportune time to explore the role of DFIs in pursuing locally led development and what steps can – and should – be taken by BII and other DFIs to align their practice to this approach to development cooperation.

This report assesses BII's approach to localisation using an analytical framework adapted for application to DFIs. This framework is based on the ODI localisation model and allows to examine whether, and to what extent, BII's current strategy, policies, governance and investments align with a locally led development approach. It offers a set of recommendations for BII and other DFIs to strengthen their role in supporting locally led development, which is a precondition for economic resilience and transitioning away from ODA dependence in the medium term. The report also assesses BII's performance, drawing on publicly available data, policy analysis and focus group discussions with civil society representatives from BII partner countries. The analysis focuses primarily on two core localisation principles: agency (who defines priorities and makes decisions) and resources (who receives finance, on what terms, and to what ends).

Key findings on BII's operations and impact

1. Local agency remains weak in development finance decision making

Despite increased in-country presence, BII's investment priorities and decisions remain largely shaped by headquarters-led processes, market-driven deal sourcing and intermediary-based investment models. There are no systematic or binding requirements for alignment with national development strategies, industrial policies or climate plans, nor for meaningful engagement and formal consultations with local stakeholders – including civil society, communities, trade unions or micro, small and medium-sized enterprises (MSMEs) – at country or sector level.

Decision-making power is highly concentrated within BII's Investment Committee and board structures, where representation from partner countries, women, and experts with deep experience of poverty reduction, climate adaptation, labour rights and social inclusion remains limited. This weakens democratic accountability and risks reinforcing top-down, Eurocentric approaches to development.

2. Resource allocation favours large, foreign-domiciled actors over local businesses

Our research finds that a significant share of BII's portfolio is channelled through intermediaries, foreign-domiciled companies and offshore financial centres, with relatively limited direct support for locally owned and embedded businesses. As of 2025, only a minority of BII's investment commitments is directed to companies domiciled in LMICs (excluding India), while a large share flows to companies based in the UK, other G7 countries or well-known tax havens.

This investment pattern limits the retention of economic value, weakens local capital market development, constrains domestic tax revenues and undermines the long-term sustainability of development impacts. It also presents a clear tension with the objectives of locally led development, economic transformation and decolonisation.

3. Limited focus on those most in need

Although BII positions itself as targeting the most challenging markets, only a relatively small proportion of its portfolio is invested in least developed countries (LDCs), fragile and conflict-affected states or its own 'alpha' (most in need) countries. At the same time, our analysis of BII's portfolio identifies multiple investments in luxurious hotels, housing and private schools, which benefit higher-income populations, and support for companies owned by billionaires and large conglomerates. This raises serious questions around additionality, opportunity cost and the appropriate use of scarce ODA-backed public finance.

4. Unclear focus on the needs of local markets

Export-led growth strategies do not consistently deliver inclusive development outcomes, particularly for the poorest and most marginalised populations. While such models may generate economic growth and employment in absolute terms, they can deepen structural vulnerabilities by increasing reliance on imported essential goods, especially food. Our analysis indicates that BII's current agricultural investments lack a coherent, system-wide approach to supporting sustainable food systems and directly addressing food insecurity. These investments are not sufficiently designed to deliver structural, transformative change to strengthen local and regional economic systems centred around local production and consumption needs and aligned with local development and climate priorities.

5. MSMEs and the informal economy are insufficiently supported

(MSMEs and the informal economy form the backbone of partner country economies and employ the majority of people living in poverty. Yet BII's investment model prioritises larger, more established

companies over smaller, locally anchored firms due to its high minimum-investment thresholds, a reliance on intermediaries' on-lending and limited use of concessional or blended instruments. High costs of capital, limited access to finance, and weak incentives for intermediaries to serve informal businesses further restrict impact.

6. Development outcomes often prioritise growth over transformation

While many BII investments contribute to economic activity, job creation and infrastructure expansion, they do not consistently support structural economic transformation, local value addition, food sovereignty, affordable access to essential goods and services or a just and inclusive transition to low-carbon economies. Investments in private healthcare and education, export-oriented agriculture and high-end real estate raise particular concerns around affordability, inequality and misalignment with development and climate goals.

BII in numbers

- Only around 12% of BII staff are based in partner countries.
- Only 4% of BII's portfolio is invested in 'alpha' (most in need) countries and 29% - in 'beta' countries (excluding multi-country investments).
- Only 14% of BII's portfolio is invested in the LDCs, and only 14% in fragile and conflict-affected countries (or only 7% if excluding Nigeria), (excluding multi-country investments).
- Only 18% of investment commitments are made to companies domiciled in Africa (excluding Mauritius) while Africa represents 60% of BII's investment portfolio value.
- BII has made investment commitments in luxurious hotel chains, fossil fuel fertilizer production and dual fuel power plants, owned by five billionaires worth US $640m, which is around half of BII investment portfolio value in the least developed countries.
- Of all BII's active investment commitments, 36% go to companies domiciled offshore; 24% - to companies domiciled in the UK and 4% to other G7 countries; US $1 of US $4 invested goes to UK-based businesses doing business in LMICs.
- 18% of all BII's investment commitments are channelled to companies domiciled in Mauritius.
- Out of all 47 guarantees, 72% go to UK domiciled companies, tax havens and other G7 countries.
- Guarantees provided to just six companies (Standard Chartered, First Rand Limited MRPA, Globeleq Limited, Afrexim Bank, Citi Fi MRPA, ABSA Bank) make up 67% of total guarantees.
- Just over half (51%) of active direct equity investment commitments go to companies domiciled in the UK, G7 or well-known tax havens.
- BII has 92% of its intermediary investment commitments in companies domiciled in the UK, offshore or G7 countries. It has six investments in companies domiciled in China, which makes up 3% of all BII's intermediate investment commitments.
- Debt is primarily provided to locally domiciled companies; companies domiciled in five countries (Bangladesh, Egypt, India, Nigeria and South Africa) received 63% of all debt.
- 37% of BII's active investment commitments go to just 20 businesses.
- There is no clear evidence that BII-backed finance would be offered at a concessional or lower interest rate. BII investees in India and Kenya offer around 25% interest rates to MSMEs, for example.
- Three of the current Investment Committee members and two board members have previously worked for Standard Chartered, which is one of BII's major clients.
- Actis, an intermediary company which in 2004 separated from BII (when it was known as CDC), has received 25% of all active intermediary investment commitments (US $2.3bn) from BII.

Recommendations

DFIs like BII can play a vital role in advancing locally led development – but only if their mandates, incentives and operating models are fundamentally reoriented.

Key recommendations for making this shift:

1. **Embed local agency by:**

- establishing formal, regular and meaningful country-level consultation processes with local stakeholders including civil society and communities
- aligning investments with national development and climate strategies and plans
- reforming governance structures to strengthen representation, diversity and accountability
- working with other DFIs and civil society to develop practical guidelines for DFIs on how to advance locally led development.

2. **Redirect resources to local economies by:**

- prioritising locally owned, led and based businesses
- supporting national and local efforts to deliver a just transition and sustainable economic transformation, moving beyond economic growth objectives
- reducing reliance on offshore domiciliation and foreign intermediaries
- strengthening collaboration with national and regional development banks through sovereign lending.

3. **Refocus on the people most in need through clear metrics, targets and transparency on investments in LDCs, fragile contexts and marginalised groups.**

4. **Support MSMEs and informal enterprises via lower investment floor thresholds, concessional finance, local currency lending and complementary technical assistance.**

5. **Evolve BII's mandate to enable the operationalisation and implementation of country platforms, enabling BII to engage with and support country platforms that deliver country-led and owned development agendas through the pooling of domestic and international funds.**

6. **Shift from growth-led to transformation-driven impact, prioritising local value addition, affordable essential goods and services for local communities, decent work and climate resilience.**

7. **Consider using a share of BII profits on a country basis to provide grants for civil society to enable it to fulfil its democratic role of holding development actors – domestic and international – to account.**

8. **Provide clear incentives to support local (especially small and informal) companies with more accessible and affordable cost-of-capital rates.**

As the UK redefines its approach to international development in a constrained fiscal environment, this report argues that locally led development must become a core organising principle of public

development finance, not an optional add-on. BII's forthcoming strategy offers a critical opportunity to demonstrate what this looks like in practice – and to set a positive precedent for DFIs globally.

1. Localisation and locally led development

Although the origins of 'localisation' and locally led development can be traced back to the 1960s and 1970s, the terms have evolved since then and become more widely known and used over the last decade. A precursor of locally led development was the 1970s concept of 'participatory development' which sought to engage local populations in development projects.[1] In the 2000s, the Paris Declaration on Aid Effectiveness defined five core principles, one of which was ownership. The declaration defined ownership as the ability of 'partner countries [to] exercise effective leadership over their development policies' and expected donors to 'respect partner country leadership and help strengthen their capacity to exercise it'.[2] In 2016, the Grand Bargain, an agreement between large donors and humanitarian organisations, committed to deliver 25% of humanitarian funding via local responders by 2020. Since the 2020s, the interlinked crises of Covid-19, climate change, geopolitical shifts and the rapidly changing international development cooperation landscape have advanced and strengthened calls for low- and middle-income countries (LMICs) to lead their own development. Despite the absence of clear frameworks or mechanisms for operationalisation and accountability, this idea continues to evolve. Along with broader emerging consensus around the need for the decolonisation of knowledge, power and economics, the concept of localisation is influencing the international development sector's transformation and calls to rethink the future of development cooperation.

A lack of local ownership is often one of the main reasons why development initiatives fail – along with a lack of understanding of the local context.[3] But while most of the localisation agenda focuses on either humanitarian contexts or providing more direct funding to local civil society organisations (CSOs) for development work, less attention has been given to international development finance institutions (DFIs) which have been spending increasing amounts of Official Development Assistance (ODA) with the stated aims of supporting sustainable development, poverty eradication and climate action.

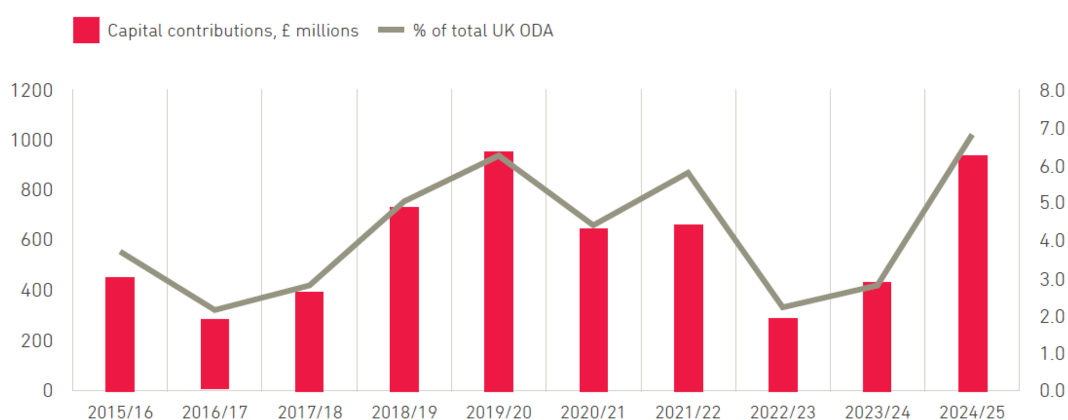
In 2023, the UK government committed to publish a strategy[4] to set out 'how the UK will support local leadership on development, climate, nature and humanitarian action'. While it is unclear about the prospects of this strategy now being developed, especially after the 2025 cuts to UK ODA, the new framing of the UK's approach to international development contains various elements of localisation. Jennifer Chapman, the FCDO Minister for Development and Africa, has been emphasising 'a partnership-led approach that is responsive to partner needs' and moving away from 'international intervention to local leadership',[5] making such statements both domestically and in various multilateral spaces, such as the G20 and the Conference on Financing for Development.

Despite not having a specific locally led development strategy, the UK government has already made several commitments to advance more locally led development. British International Investment (BII), which is wholly owned by the Foreign, Commonwealth and Development Office (FCDO), has received a significant share of ODA since 2015 (see Box 2) and is in the process of publishing a new strategy for 2027 onwards. BII should therefore reflect these commitments (see Box 1) and adapt a locally led development approach to its strategy, policies and business model and not be seen as an exception.

Box 1: Overview of the UK government's key commitments to locally led development and/or localisation

1. The Grand Bargain (2016)
2. The Grand Bargain 2.0 (2021)
3. The Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) Recommendations on Enabling Civil Society in Development Co-operation and Humanitarian Assistance: a political commitment to support the meaningful participation of local CSOs throughout programming and policy-making, based on equal power relations (2021)
4. Political statement by 15 OECD DAC members supporting locally led development at the Effective Development Co-operation Summit; The Donor statement on Supporting Locally Led Development[6] (2022)
5. The UK government's international development strategy includes a commitment to enable 'people and countries to take control of their future' (2022)
6. Principles for locally led adaptation endorsed by over 100 organisations, including the FCDO (2022)
7. G7 Leaders' Hiroshima Communique, which recognises locally led development as a way to achieve the Sustainable Development Goals (SDGs) (2023)
8. The UK government's white paper on international development (2023) makes strong commitments to locally led development, locally produced research, locally led adaptation, locally owned priorities, locally led solutions and building and supporting local businesses.

Box 2: UK Official Development Assistance transfers to British International Investment (2015 – 2025)[7]



What is localisation?

There is no universally agreed definition of localisation or locally led development, which has a direct impact on the coherence, comparability, progress, transparency and impact of initiatives and

approaches labelled as such. Broadly, Bond interprets the concepts as ‘initiatives owned and led by people in their own context’ and aligns with other definitions such as ‘giving local partners more control and ownership of development initiatives’ (ICNL’s definition),[8] transferring power from a ‘top-down system of development and philanthropy to local communities and institutions to drive their own development processes’ (from the #shiftthepower campaign, which emerged in 2016).[9]

Box 3: Five key elements of localisation[10]

Normative: Locally defined priorities and needs; local ownership of problems and solutions

Instrumental: Improved long-term effectiveness, efficiency, sustainability; long-term transformative change and impact

Emancipatory: Rebalancing power, building self-sufficiency and reducing dependence on external assistance

Moral: High-income countries taking responsibility for historic injustices caused by colonialism and exploitative economic relations; changing the pattern of how power and resources are shared and decisions are made

Political: The right to self-determination; economic decolonisation; equal partnerships based on trust and respect; democratisation of policy-making; shaping countries’ or communities’ development pathways in an inclusive way to act as a counterweight to authoritarian trends

What does localisation mean to development finance institutions such as British International Investment and why it is important?

DFIs are mainly working with private sector companies, but as ODA spending entities they are not exempt from compliance with the key principles of ODA – these principles being **concessionality** (when loans or financial aid is offered on much better terms than market rates or longer repayment periods) and the need to promote economic development and allocate resources where they are most needed.[11] OECD’s eligibility criteria for private sector instruments are **additionality** (this relates to financial, value and development additionality; for example, providing affordable loans to small or medium-sized enterprises which otherwise would not be available to them), **accountability** and **transparency**.[12] As BII’s Investment policy requires it to take all actions to ‘remain qualified as an ODA eligible entity’,[13] concessionality, additionality, accountability and transparency must be fundamental principles for its business model and operations.

Although the concept and methodology of ODA has significantly evolved since the 1970s when it was first agreed, the commitment to spend 0.7% of gross national income (GNI) on ODA was based on estimates of the level of finance LMICs needed to achieve desirable growth rates,[14] and adapting this assistance to the requirements of recipient countries.[15] Moreover, aid effectiveness principles agreed in 2005 include ownership, alignment and accountability.[16] These are also important features for locally led development and should apply to all ODA spending organisations, including DFIs.

If we apply the localisation concept to development finance, DFIs (as ODA spending organisations) ought to be driven by specific countries’ requirements and needs, and development finance should be provided to local actors to strengthen and grow local economies.

This matters for three reasons:

1. **Beyond growth:** The social and economic development of LMICs is not only about the quantitative expansion of a country's economic activity, as measured by gross domestic product (GDP) growth, trade and created – although often not so well-paid – jobs. Economic growth alone is not enough to eradicate poverty or to put a country on a sustainable development path,[17] which is why the UN created the High-Level Expert Group on Beyond GDP,[18] acknowledging that it is important to redefine what matters and how it is measured. The key challenge for DFIs is not just about growing the pie, but ensuring everyone gets a fair slice from it, especially those people experiencing poverty and intersecting inequalities,[19] who can thrive if holistic and inclusive approaches to economic transformation are taken. These approaches include a locally led and owned climate-positive and gender-sensitive industrial strategy, a pro-development policy space and an inclusive and equitable ecosystem of rules, regulations, business culture, technology, intellectual property rights, infrastructure and finance. An important precondition for this economic transformation is the government's capacity to investment in its people by providing quality and accessible public goods (e.g., education, health, social protection).

2. **Economic autonomy:** For a country to be sovereign and democratic, it has to have both political independence and economic autonomy. If resources, capital and economically productive activities are owned or driven largely by foreign actors or Eurocentric perspectives, advice and interests, local political agency has limited power to truly own the direction, speed and quality of its economic development. Locally driven and owned development is also a matter of democratic accountability, which cannot be delivered by outside actors to local communities. Therefore, international public and private finance can only complement (not substitute) domestic finance as an instrument for development. DFIs can support locally owned and led transformative change by working with and listening to local actors and enabling local people and economic actors to thrive. This should not be about creating business opportunities for international businesses in LMICs; it should be about nurturing and strengthening the local economic ecosystem so that it is domestically resilient and sustainable and able to support the needs of local communities and address collective challenges.

3. **Economic justice**: The UK has a special historic and moral responsibility to consider ODA as an act of justice. UK ODA should be viewed as a way to redistribute global wealth to places that have suffered from an unequal economic system and colonial and exploitative economic relations over the last few centuries, from which the UK has benefitted.

As the basis for our analysis and recommendations on locally led development, we are using the Bagoius/ODI framework of localisation[20] which outlines three key principles: **agency, resources and ways of being.** We have adapted this framework to include sub-elements of each principle, tailored to DFIs as international development actors. Due to the limited information available, this report will only focus on agency and resources.

Box 4: Three principles of localisation (adapted from the ODI model)

- **Agency – by local people: Local actors own development and decision making, solutions and results**
    - Identifying local challenges and solutions

- Making decisions
- Meeting local needs
- Local accessibility to produced goods and services

- **Resources – for local people: Direction, quality and access of funding**
  - Local ownership
  - Focusing on the people most in need:
    - Not billionaires
    - The informal sector
    - Micro and small and medium-sized enterprises (MSMEs)
  - Access to funding
- **Ways of being – with local people: A decolonial and anti-Eurocentric approach to partnerships, respecting local identity, knowledge, culture and values**
  - Recognising and using local knowledge systems
  - Respecting local values and meanings
  - Respecting organisational or individual identity

Who is 'local'?
Most literature on locally led development talks about local CSOs. In the case of DFIs, 'local' has to be interpreted as a broader concept across different sectors. Socioeconomic development is not only driven by profit-seeking private enterprise, but by the collective effort of various stakeholders with distinct roles. In this context, when talking about locals, we mean:

- MSMEs (as defined by the partner country) as a priority
- larger, strategically and systemically important local enterprises[21]
- trade unions
- chambers of commerce
- the informal sector (where people living in the deepest poverty are concentrated)
- the communities impacted by investment projects
- local or Indigenous knowledge collectors, creators and amplifiers
- local government actors at national, regional and municipal level
- women and young people; both are important demographic groups, with a presence in all the other local categories, but tend to be economically and socially excluded
- underserved, excluded and marginalised groups, such as people with disabilities, ethnic minorities and LGBTQ+ people; both as specific groups and as part of the other local categories.

2. Agency and resources

This report more thoroughly explores two of the three key principles of localisation – agency and resources – and assesses BII's approach and performance against this framework. The intention is not to

offer a comprehensive assessment, as there are clear limitations due to only selected information being publicly available. Instead, we will look at trends and examples and provide guidance on how to think about the governance, business model, operations and strategies of BII and other DFIs,[22] using a locally led development approach. This report also makes recommendations for change to align BII and other DFIs with locally led development principles.

To complement our desk research and analysis, we carried out a survey and focus groups with CSO representatives across Africa and Asia, which gave us useful insights and perspectives around practical implementation of development finance initiatives through DFIs.

1. Agency

One of the objectives of the UK government's 2023 white paper on international development[23] was to ensure that the UK's 'development offer responds to locally owned priorities and contexts' and is supporting 'countries' own plans'. This is a significant commitment which encapsulates the essence of the 'agency' principle: **putting local actors at the centre of their community's development, making choices about their priorities and solutions.**

Agency is about the ability of local and national actors to identify their own problems and choose their own priorities and solutions. Development that is not owned and led by local agency but imposed or led from the outside by external actors can never be sustainable. Rather it is a continuation of modernised forms of the Eurocentric, colonial dependency model[24] which frames development through an outsider-led vision, interests and perceptions.[25]

External actors, such as donor governments or DFIs, have a limited legitimacy to drive another country's development process. Moreover, development is not something that can be done or imposed from the outside; external actors can only support a country's efforts and must be guided by local vision, strategies, solutions and needs.[26] The development and economic growth strategies of the countries where DFIs are based should not obstruct, undermine or compromise other countries' development prospects. However, this does not mean the UK or traditional donor countries should stop supporting development. But it is a matter of historic, social and economic justice, and hence responsibility, to de-paternalize partnerships, basing them on equity, solidarity and respect, and redistribute power and resources in a way that enables everyone to thrive and get a fair share of a created economic and social value. To do it well, the local agency perspective must be applied across all of the UK's development offer, including the UK's work through multilateral spaces and private sector investments. The institutional setup of DFIs should not undermine local agency and its role in shaping DFIs' direction, operations and business model.

Box 5: Questions to ask around agency

1. Is there a space, time and opportunity provided where **priority challenges and solutions** are discussed and **identified** through meaningful, inclusive, regular engagement and dialogue with relevant local stakeholders? Such stakeholders include civil society, trade unions and central local development change agents, such as women, small-holder farmers, MSME owners, environment protection groups and local experts on children, public health, climate resilience and inclusive, social and industrial development.
2. Are local actors involved in **making decisions about investments**?

3. Are the produced goods and services supporting **the needs** of local communities and markets?
4. Are the produced goods and services **concessional** and **accessible,** financially and physically, for local people, especially those on the lowest income and with the least resources?

1.1. Identifying local needs

Over the last few years, BII has significantly expanded its presence in partner countries. Theoretically, this gives BII more opportunities to understand local contexts, experiences, knowledge and needs, build strong and lasting relationships and seize investment opportunities which contribute to those countries' strategic objectives. Compared to 2011, when BII had just over 40 staff[27] and no country offices, by the end of 2024 it had around 657 staff.[28] In 2022 81 of BII staff were based in the countries it invests[29] although it is unclear whether these are local or foreign staff. Besides its headquarters in the UK, at the end of 2024, BII had offices in 11 locations: Bangladesh, Egypt, Ghana, India, Kenya, Nepal, Nigeria, Pakistan, Singapore, South Africa and Zimbabwe.[30] These countries, except Singapore, represent 65% of BII's total investment portfolio value.[31] Singapore is a relatively new regional hub through which BII is planning to support climate finance investments in the Indo-Pacific market.[32]

While the expansion of country offices is a commendable move, only about 12% of BII staff are based in partner countries, with around seven staff per country office. Of course, a country presence provides the chance to recruit local staff with a solid understanding of the political economy and development of their country. But, this alone may not be sufficient to ensure that analysis, advice and decisions are fully driven and informed by national development and climate action strategies and plans, and context-sensitive local needs and interests. Nor is it enough to guarantee the proactive engagement of local stakeholders beyond specific investees, or intermediaries spotting commercially viable opportunities.

BII staff presence in partner countries can play a significant role, but it all depends on how inclusive, systematic and meaningful an approach is taken to engage both local stakeholders and communities with the greatest development needs. BII has a stakeholder engagement plan, but it is not public. According to the recent Forus study, 'regular, meaningful, and systematic dialogue between PDBs [public development banks] and CSOs is critical for ensuring development effectiveness, using context-specific knowledge and access to local communities to direct investments towards inclusion and social equity while minimising the risk of projects failing and human rights abuses occurring. CSO engagement can promote sustainable economic growth, drive innovation, and enhance social capital and trust'.[33] For example, the European Bank for Reconstruction and Development (EBRD) publicly discloses its approach to civil society engagement, which includes a Civil Society Steering Committee, country- and sector-level strategy consultations, an independent project accountability mechanism and involvement in policy making.[34] Although BII has a smaller portfolio value, EBRD has a comparable geographical reach. This suggests there is significant scope for BII to improve the way it engages civil society and local communities in its work.

In 2025, BII had 646[35] active investment commitments in at least 37 countries (with 3 or more investments) with total value of US$ 18.5bn.[36] So many scattered investments might lower their development impacts and prevent BII from making significant transformative change beyond individual successful investments. Compared with other DFIs, BII has a moderate level of country coverage (for example, FMO, a Dutch DFI, operates in over 80 countries)[37] but extensive global coverage (as it operates in Africa, South Asia, Indo-Pacific and the Caribbean). This puts pressure on BII's internal

capacity and may make it challenging to ensure BII has access to and relationships with relevant local stakeholders, local expertise and knowledge to be adequately informed about individual contexts and needs.

BII's approach to actual 'needs' is broadly based on the implementation of the SDGs and the Paris Agreement and the consequent priorities outlined in its 2022-2026 strategy: productivity, environmental sustainability and inclusion.[38] In addition, the section on BII's website on its investments in Africa specifies the following key priorities: climate finance, infrastructure, digital transformation, diversity and inclusion[39]. The FCDO's guidance is more specific and defines the following priority needs: 'infrastructure and climate, financial services, and ITS (Industries, Technology and Services) industries (services, manufacturing, agriculture, real estate and construction, technology)'.[40]

While BII has committed to tailoring its approach to individual countries,[41] it does not officially require potential investees to seek alignment with national development goals, industrial policy priorities[42] or endorsement from relevant local stakeholders, or consider how the investment fits into a broader toolbox of public, private, domestic and international finance to achieve the SDGs and Paris Agreement targets in a specific country. Rather, we see a greater focus on individual business interests. Proposals are assessed against BII's impact score, plus environmental, social and governance (ESG) standards and a commercial viability test (as per BII's own investment decision-making process and 2023 FCDO guidance on targeting African businesses which outlines how to access UK government-backed funding). This means BII is relying on development ideas coming from market actors who, first and foremost, think about commercially viable opportunities rather than the most marginalised groups' needs and a country's long-term sustainable development.

None of the documents that outline BII's investment decision-making process refer to consulting or involving local stakeholders of a specific country. Neither does BII's investment process require any formal consultation with local authorities, affected or impacted communities and other local stakeholders before the investment deal is secured. This means decisions about a specific country's development needs, and the solutions to address these needs, may be made outside the partner country by BII, its chosen experts and prospective investees.

When there is a development or expansion of a site or asset by an existing investee, BII will consider if the investee has undertaken meaningful stakeholder engagement as part of its environmental and social due diligence process and subsequent stakeholder engagement plans (SEPs) and monitoring. BII's ESG Toolkit provides guidance for BII fund managers and investees undertaking external stakeholder engagement, but it is not mandatory.[43] Moreover, none of the guidance implies that BII itself is carrying out stakeholder engagement around investment strategies at the country- or sector-level, and it has not been possible to obtain individual or cumulative data about the SEPs of BII investees and how they are implemented. This is because BII does not publicly disclose information on which investees have a SEP in place as it is not a required disclosure under BII's Transparency and Disclosure Policy.

Recommendations

- BII's **investment priorities should be defined at a country level** (respecting specific contexts and needs), ensuring clear **alignment** with national development strategies, industrial policy, climate action strategies and plans and the SDGs agenda.
- **To gain social legitimacy and a legitimate license to operate,** BII should establish **standardised, formal, meaningful, inclusive, binding and regular consultations with local stakeholders** (e.g., government, civil society, MSMEs, communities, research centres, think tanks, farmers, women entrepreneurs, informal sector entrepreneurs) **on both country-level investment strategies and individual investments.** It should also ensure that the proposed investment(s) are in line with the most critical needs, have gained local legitimacy and support and acknowledge the value of local and Indigenous knowledge, experience and perspectives.
- Based on the good practice of other public development banks (PDBs), BII should develop and implement **a civil society engagement framework** and specific, inclusive and meaningful engagement mechanisms within countries.
- BII investees should have mandatory and publicly available stakeholder engagement plans.
- Considering its limited resources, BII should explore taking on a **more transformative role** by **focusing on fewer countries.** It should support key national DFIs in shaping local markets by taking a holistic, ecosystem approach which deepens, maximizes and broadens the impact of investments that directly respond to local needs.
- BII and the FCDO should **revise and update its strategy and guidance** for potential investees, ensuring that all investments align with, and directly contribute to, key national development strategies, commitments and needs (for example, locally developed and owned national sustainable development strategies and Nationally Determined Contribution plans), and all investees should seek endorsement from various local stakeholders as part of the investment decision-making process.
- BII (together with other DFIs, and potentially via the PDBs-CSO coalition launched by the Finance In Common could **develop a guide on the role of DFIs in advancing locally led development.** This should include a clear, shared definition of locally led development and local actors, indicators for measuring PDB and DFI alignment with the locally led development concept, a methodology for tracking progress, and operational guidance to achieve this alignment.

1.2. Making decisions

The way decisions are made and who makes them matters. Localised development initiatives would mean no decision is made without the involvement of those who will be affected by it. How a DFI defines success, what indicators or criteria are used to make decisions and whose perspectives are counted and acknowledged, will indicate the degree of localisation mindset a DFI has. From this, we can see whether decision making within a DFI is essentially a vertical, headquarter-led process or whether it has a more horizontal decision-making framework, one which engages the key economic and social

stakeholders in the country where the investment is being made to establish their priorities and how the DFI can best support them to reach their goals.

Whose knowledge and expertise should count? What is considered as trusted information? Who is defining what the development impact is and how to measure it? Does the investment make sense to stakeholders in partner countries? These are just some of the questions that should be asked when making decisions about development finance investments. If there is an absence of local voices at the decision-making table and a lack of accountability for the decisions being made, this is a top-down approach to development and can be easily framed as a Eurocentric, paternalistic, neo-colonial and uncredible practice.

The BII investment decision-making process is broadly defined by BII's 2022-2026 investment policy,[44] its policy on responsible Investing,[45] BII's 2022-2026 strategy[46] and FCDO guidance,[47] both in terms of process and intended impact and results. The BII Investment Committee (IC), which makes decisions about investments, includes 32 people,[48] consisting of 16 BII senior staff and 16 external experts. While in 2024/2025, 38% of external members of BII's Investment committee were based in BII's partner countries,[49] such as India, South Africa, Tanzania and Zimbabwe, there is a question over whether the committee is diverse enough in terms of committee members' backgrounds, holistic expertise and lived experience. There are only 11 women (34% of all IC members), most of the members come from the finance sector and very few have direct experience and expertise[50] in key impact areas, such as climate science, gender equality, poverty eradication, sustainable food systems and social inclusion. However, this is a notable improvement from 2019 when the committee had 10 men and 2 women, did not have any external members based in BII's target countries, and only 8% of members had what BII describes as 'ethnically diverse backgrounds'.[51]

The average tenure of IC external members is just over 4 years[52], but two members have been on the committee for more than 10 years. According to the UK Code of Corporate Governance, the recommended ceiling for senior management tenure is nine years as there is a risk that people will lose independence and become too close to management if their tenures last longer than this.[53] Interestingly, three of the current IC members (plus two of the board) have previously worked for Standard Chartered, which is one of BII's major clients; between 2013 and 2024 BII provided US $750m worth of guarantees to Standard Chartered, which raises a concern about potential conflict of interest.

BII's investment decision-making process requires investees to articulate development impact and key stakeholders, but it does not set any expectations on engaging local communities and affected groups during the decision-making stage.[54]

BII's board consists of 10 members,[55] of which at least 3 have significant lived experience from BII target countries (India, Nigeria and South Africa). The board makes an annual visit to BII partner countries and meets with various local stakeholders,[56] which may or may not pre-define locally led investment decisions.

To check whether an international DFI is aligning with the localisation agenda and aiming to make transformative change, a few other questions need to be asked:

- In what ways is the board demonstrating accountability to the communities and countries it serves? And if it is doing this, how is it doing it?
- What is the level of representation from lower-income countries and people of colour on the board?
- Are the people the DFI intends to support being represented in decision-making processes?

- How does the organisation invite, analyse and respond to feedback from its key stakeholder groups, including staff?
- If local African MSMEs is one of the key target groups for the DFI, do these MSMEs have a seat at the decision-making table to co-design investment instruments that work for local contexts?

Recommendations

To become more localised by better engaging local actors in processes to determine strategy and investment priorities, BII should do the following:

- Review and reform the membership and representation of the **IC and board,** ensuring there is adequate diversity and expertise linked to poverty reduction, social and economic inclusion, just transition, climate adaptation and mitigation, biodiversity, labour rights, gender equality, economic transformation, sustainable food systems and locally led development.
- Seek formal **endorsements from key local stakeholders during the investment design stage** (e.g., national and local governments, civil society, relevant business associations) regarding the impact, additionality and transformative effect of the proposed investments.
- Organise a broad and inclusive consultation on the **review of the impact score** (which is used in the decision-making process) to create a more nuanced tool with elements such as a clear baseline, minimum requirements for each indicator and non-negotiable factors (i.e., red lines).

1.3. Meeting local needs

When DFIs are attempting to support the building of local sustainable economies, it is critical to ask if **the goods and services produced through this support are meeting the needs of local communities** and markets. If DFIs are investing in ways that deplete the resources that local communities rely on, they fail to provide the support communities need to thrive and become more self-sufficient. By failing to respond to the economic challenges faced by poor and marginalised groups, DFIs' impact in meeting local needs will be limited, or (in some cases) negative.

Agriculture and food is one area where significant challenges relating to the sustainable and equitable use of local resources arise in relation to BII (and other DFI) investments. Between 5%-10% of BII investments have been made in agriculture. Whilst many of the partner countries face high food insecurity and hunger, most of these investments support companies to produce food and agricultural goods for export using large amounts of land and water. This risks prioritizing the needs of international consumers over the needs of local communities and depleting or closing off local access to essential natural resources, which could be used to support local communities' livelihoods.

It is not clear if BII is taking account of the risks and trade-offs of unsustainable and inequitable local resource use in making investment decisions, or if it is adequately monitoring and responding to these risks when they are relevant to individual investments (See Box 6 below).

BII's agricultural investments also bring attention to challenges around the ability of regions, such as East and Southern Africa and West and Central Africa, to find ways to achieve greater self-sufficiency in

food production,[57] thereby helping to strengthen food security, sovereignty and reduce dependence on food imports[58]. In countries such as Ghana, Kenya and Senegal, more than 50% of arable land is used to grow export crops,[59] yet these countries are also importing more than US $3bn in food for local consumption.[60] In total, 42 African countries are designated as 'net food-importing developing countries' by the World Trade Organization.[61] On an annual basis, for example, Africa pays about US $75bn for imported cereal[62] which could surpass US $110bn by 2025. It is not clear if BII adequately recognises this challenge and is maximising opportunities to support countries to produce food for local consumption and reduce dependence on food imports.

A World Bank study suggests that food imports could be replaced with local production, creating more local jobs for young people and farmers in rural areas.[63] The focus groups with civil society from BII's target countries also reflected on using investments for import substitution to reduce prices. Imported foods can be expensive when there are supply change disruptions or when global prices or currency exchange rates fluctuate. Often, imported foods are cheaper than locally produced foods (thought, in many instances due to subsidies), which is beneficial for consumers in the short term. But from a long-term economic development angle, imported products can crowd out local businesses. This is a risk that BII tolerates for one of its largest investments in African ports.[64]

One of the priorities of Development Bank Ghana is to reduce its import bill by US $500m by supporting local production for local needs[65] to enable a more equal playing field with imported goods and bring down prices for consumers without jeopardising local producers' livelihoods. BII could explore opportunities to work with national development banks on these types of priorities.

Box 6: Examples of BII agriculture and food investments that support the needs of consumers in high-income countries

- **Afri Flowers Holding BV (Afriflora/Flamingo Horticulture):** This is an investment in flower farms in Ethiopia, managed by an intermediary domiciled in the Cayman Islands. This is a business that uses lot of land and water in a country where over 10 million people are acutely food insecure[66] and over 60 million people have no access to clean water.[67] The largest market for Ethiopian flowers is the Netherlands, and flower exports have become a major source of foreign exchange earnings for Ethiopia, raising over US $500m in 2024 alone and providing over 200,000 jobs, mostly to women.[68] The success of Ethiopia's flower export industry is based on two key factors: leveraging low labour costs and using duty-free access to European markets under the Everything But Arms scheme.[69] However, it comes with significant trade-offs. Flowers are grown on large volumes of land and uses scarce water resources, both of which could be used for producing food for local consumption. There are also concerns about worsening quality of children's nutrition and diets,[70] and smallholder farmers having limited access to land and water resources due to an increased share of agricultural land being used for non-edible agricultural products yet experiencing pressures to produce food for domestic consumption.[71] Flowers are non-essential, luxurious products which jar with the SDGs and Paris Agreement goals. Employing 200,000 people in sustainable, agroecological food production, rather than flower farms, would make a greater contribution to a just transition and sustainable long-term economic transformation.

- **NMB Bank Limited:** This is an investment in Zimbabwe to advance agricultural exports, of which only 30% of US $10m loan is going to sustainable agriculture practices to adapt to climate change.[72] NMB Bank's investment, using BII's loan, is intended to be taken up by 10-15 companies with between 250-5000 employees. This investment will help Zimbabwe bring in foreign exchange; however, it could also further deplete local natural resources and ultimately drive unsustainable practice. In 2024 the Zimbabwe government declared a national disaster due to draught, which made 40% of the population food insecure.[73] With 70% of the population relying on rural economic activities (mostly rain-fed crop farming), market interventions that focus on directly supporting smallholder farmers to work in a climate-smart, sustainable, agroecological way would be far more effective at reducing poverty and food insecurity in the long term than investing in advancing agricultural exports, particularly when the majority of those exports do not have to follow sustainable agriculture practice.

- Invictus Trading: This investment in Sudan, via a UAE-based company, supports Dal group, the largest private company in Sudan, to import wheat into Sudan (a US $50m investment in 2023).[74] Wheat is sourced from Europe, the Black Sea area, Australia and North America.[75] However, other dominant food staples in Sudan, like sorghum and millet, could be sourced from neighbouring African countries which would promote intra-African regional trade and strengthen regional food systems. What makes wheat imports especially attractive now is Invictus' access to cheap wheat from Russia as the UK and the EU encourage businesses to find alternative wheat suppliers.[76] Through this BII investment, the UK is advancing Russian wheat exports to Sudan and other countries across Africa, which potentially compromises short-term gains over long-term geopolitical losses.

There are also concerns that, for many commodity-dependent low-income countries that produce low-value goods and services, an increase in trade does not equal an increase in benefits.[77] Despite a popular narrative around the ability of export-led growth to reduce poverty, there is a growing consensus that an export-led growth model does not automatically deliver inclusive development outcomes widely across society, especially for the poorest and most marginalised people. For example, a World Bank study of export-led growth in Madagascar found it had a negligible impact on poverty reduction, with skilled workers in urban areas benefiting the most, leaving the poorest, most unskilled workers unsupported, especially in rural areas.[78]

BII's own evidence review of the impacts of trade and supply-chain finance supports these findings. This concludes: '…despite these overarching positive macroeconomic impacts, the distributional impacts of trade are more nuanced. While trade is a contributor to overall poverty reduction, the gains from trade can impact parts of society in different ways. Some stakeholders require a longer timeframe to adjust or need more support to overcome barriers.'[79] This resonates with the conclusions of the World Inequality Report 2022 which argues that a trickle-down approach to wealth and prosperity creation is a myth, and efforts to eradicate poverty and reduce inequality must focus directly on the people who are most in need and the parts of society with the highest levels of poverty and marginalisation.

These conclusions imply that DFIs like BII need to perceive trade-related investments in a more holistic and systemic way ensuring they empower rather than extract, build self-sufficiency not dependence, and focus on the needs of the marginalized communities not consumer markets.

During the focus groups with civil society from BII's target countries, we asked which sectors would have the highest impact on local economies. Participants highlighted several sectors, but primarily they were supportive of BII taking a multi-dimensional and cohesive approach to enhance an economy's internal, self-sustaining strengths. The sectors that participants most commonly referred to were agriculture, local production/value addition, and the financial services and infrastructures that enable them.

So far, BII's portfolio has been prominently invested in financial services and infrastructure. BII invested 30% of its 2024 portfolio and 44% of its 2024 commitments[80] in the financial services sector, including by lending to banks and financial intermediaries which can support both local needs and export markets. This is the primary sector for investments alongside infrastructure (29% of the portfolio; 33% of investments in 2023).[81] Although BII's data on the impact of its investments in the financial sector is not fully transparent, we do know that:

- 37% of debt investments are directed to finance MSMEs
- access to trade finance remains concentrated among large corporations
- 38% of equity investments in the financial sector are for digital financial services
- there are several examples of local currency lending, although more is needed
- only 4% of investment portfolio go to 'Alpha' and 29% to 'Beta' countries,[82] and risk management strategies need to be adjusted to support more Alpha countries.[83] (We note here though that around 50% of 2024 investment commitments have been directed to Alpha and Beta countries.[84])

Some of the concerns regarding the actual development impact that result from BII's investments were also raised by the FCDO evaluation.[85]

Recommendations

BII, and DFIs more broadly, should build holistic, gender-sensitive investment strategies that align with commitments to 'leave no one behind'. These strategies should support economic activities that meet various critical local development and climate action needs through the production of goods and services. Local businesses and farmers, who create the majority of jobs, should be able to thrive in their own economies. Focusing on nurturing local entrepreneurial capacity and emerging sectors (as per BII's mission) is critical for locally led development.

More specifically, BII should:

- Support the building of **local and regional supply chains** to advance economic resilience and self-sufficiency in critical, strategic sectors, such as food, energy and transport, rather than responding to the needs of consumers in high-income countries. This should be done in ways that support a just and inclusive transition to a green and sustainable economy.
- **Prioritise local needs** so that investments address, for example, local food sovereignty, climate adaptation and mitigation, decentralised and renewable energy production, and strengthen local production and the market infrastructure of critical goods and services.
- Prioritise **local value addition** and adopt an ecosystem's view. Investments in infrastructure, manufacturing and agriculture should always include primary aims of enhancing local productivity, providing decent work (including for women)[86] and producing affordable goods for local needs.
- **Support MSMEs** that are active in critical areas for a green transition, sustainability and a healthy people and planet. This should be done through complementary **grant-funded initiatives** to boost productivity, develop skills and transfer technologies.
- Respect the rights of governments to support domestic industries and regulate the entry of foreign investors into a country to promote development and the creation of decent employment, based on International Labour Organization (ILO) core standards.
- Adopt a **value chain approach**; procure locally and make technology transfer/exchange the norm. Building on both local and international knowledge is crucial for strong industries that are sustainable, locally owned and can minimize costs.

1.4. Access to produced goods and services

BII's 2022-2026 strategy stresses the importance of affordable goods and services as outcomes of its investments. This is critical for ensuring its investments benefit, not only local people but local people who are marginalised due to their gender, age, ethnicity and other intersecting forms of exclusion. It is also key to upholding the SDG commitment to leave no-one behind.

There are several examples that demonstrate DFIs' ability to support local needs and to do so at an affordable and accessible price. For example, investment in TradeDepot[87] in Nigeria enables retail micro-businesses, often owned by women, to access goods and finance, while investment in 14Trees has pioneered new sustainable construction methods which are not only saving trees but reducing building costs by about 20%[88].

Yet, in many cases, the products and services of BII investees appear to target higher-income populations. Box 7 outlines some examples where investments may contribute to economic growth and be profitable business projects but seem to miss out on crucial aspects of system transformation, inclusiveness and achieving more specific climate and development goals.

In our focus groups, when reflecting on specific BII investments, several participants questioned the lack of accessibility and affordability of private health and education facilities. For instance, when looking at the price schemes of a BII intermediate investment in a private hospital in Nigeria,[89] a participant commented: “The project is largely not one that is within the reach of the 133 million Nigerians that live in multidimensional poverty … Understandably these are investments in private companies, hence they are not necessarily for ‘charity’. Viewed from the lens of availability of quality healthcare facilities, this investment may be classified as worth it for multilaterals, investors and the affluent and diplomatic circle who may need access to quality healthcare while in Nigeria.”

Considering that healthcare and education are fundamental public rights and goods, investments in private healthcare and education providers are inappropriate instruments, especially when using ODA, due to the commercialisation, privatisation and financialisation[90] of these critical services. Moreover, profit-seeking investments in essential public goods, such as health and education, are inaccessible to the vast majority of people living on low incomes, both in LMICs and in the UK. Financialisation of health and education actually moves us away from achieving universal access to free primary care and education, not only by reducing the funds that are invested in strengthening public health and education systems but also by draining teaching and medical capacity, leaving public schools and hospitals more understaffed. There are further implications for gender inequality; women's unpaid care and domestic workloads increase when healthcare is unaffordable, and girls (rather than boys) are often the ones who are kept home from school if families cannot afford to send all their children.

According to Oxfam research,[91] the majority of BII investments in healthcare are ‘out of sight and unaccountable, made via fee charging and profit seeking private equity funds’. Oxfam’s investigation found several examples of human rights abuses within BII-supported hospitals. This includes patients being detained until their bills are paid, people being denied treatment despite having health insurance, people experiencing delayed emergency care, intensive care beds being sold to the highest bidder, and new parents being charged massive childbirth fees. Oxfam also found that several BII-supported healthcare providers were marketed as high-end services to tourists and wealthy expats.

During Covid-19, the pharmaceutical sector illustrated the importance of thinking holistically about market shaping. Investments in locally managed and strengthened manufacturing capacity[92] to produce critical medication is a national health and safety issue and essential for a state’s capacity to respond to a health crisis and protect their citizens’ health.

Box 7: Examples of BII investments and their affordability and accessibility for people on local incomes

Project and investment value	Issue	Description of expected development impact
Garden city US $20m debt + US $4.69m equity (2013) Domicile: Mauritius	Nairobi's Garden City is a US $540m phased project and one of the largest mixed-use real estate developments in Africa. It has over 400 residential units and 33,500 square metres of retail space spread across three floors. The project's website states: 'For the discerning investor this will mean sustained high occupancy rates, inflation-hedged rental income with yields above 8% and a projected overall return of more than 20% over the medium term'[93].	The project created over 500 direct jobs during the construction phase and over 600 more once the project was completed. Local businesses have supplied goods and services to the mall and our investment also supported entrepreneurship among local artisans, including a market which has given them access to consumers without the overhead of permanent retail space.
Inaugure Hotels US $32m debt (2018) Domicile: Mauritius HQ: Barcelona, Spain	Inaugure Hospitality Group is a West African business, focussing on the construction, management and franchising of business hotels in Senegal, Benin, Niger, Côte d'Ivoire and Sierra Leone. The owner of Telyiom, the project's parent group, is the richest man in Senegal. To give a sense of the high-end nature of this project, one of the hotels in this chain (in Abijam, Ivory Coast) features in the Amazing Architecture digital magazine.	Building business hospitality with safe and secure areas creates an enabling environment to attract national and regional corporates who can utilise these areas to host employees and meetings. Economic development will also be supported through hotel spend, increasing revenue flows to local suppliers and contributing to local taxes. CDC's [BII's former name] capital will also fund large-scale employment of over 1,000 new jobs through the hotels' operations and many more in construction.[94]
Enko Education Limited US $19m (2022)	This is an investment, via Adiwale Fund I, in a chain of international schools across several African countries which offer International Baccalaureate education for fees that are far above an average family's income. In Zambia, the school is owned by Pestalozzi International Foundation, with Enko as the operating partner. In Zambia, the yearly school fee is 25,900 ZMW[95] (about US $1,300). Meanwhile,	The school provides access to quality education for the middle class and it is also committed to social inclusion with approximately 20% learners from generally vulnerable backgrounds receiving sponsorship.[97]

Domicile: Mauritius	more than 60% of Zambia's population live on less than US $2.15 a day.[96]	
IHS Kenya Green Housing Fund US $36.9m (2023) Domicile: Luxembourg	This project in Tilisi, Kenya is a 400-acre master-planned mixed-use development, located 30 minutes away from Nairobi. This investment will use 2.5 acres of land for the development of over 200 EDGE-Certified Green affordable housing units at Tilisi.[98] Households spending is estimated at KES46,355 (US $358) or less per month for 71% of all households in Nairobi, and is lower among households in the lower income group.[99] This means this project is likely to benefit the richest 30% of Kenya's households.	EIB, as a co-investor, states: 'Through our investment in climate-friendly affordable housing, our projects help create jobs, grow skills and stimulate economic development. Target audience: the Fund will make investments where the average market value per unit is less than KES 4,500,000 per unit, and targets households with income of between KES 50,000 - KES 150,000 per month[100] (US $1160), with such limit adjusted for inflation monthly, in line with the most recently published consumer price index published by the Kenyan government.'[101]

Recommendations

BII and DFIs must do the following:[102]

- Revise the Impact Score so that it requires investees to provide more explicit minimum commitments and evidence on how the initiated project or investment will target and directly benefit people on low incomes.
- End all new funding for commercial private healthcare and education, including investments through intermediaries, to avoid privatisation and commercialisation of essential public goods.
- Launch an independent evaluation of past and current healthcare and education investments, focusing on their impact on inequality, poverty, gender and human rights.
- Commit to redressing any harm caused by investments into private healthcare and education.

2. Financial resources

DFIs' core function is the provision of resources, and this has also become one of the most sensitive aspects of localisation: how are we giving money, to who, for what, on what terms and why?

From a locally led perspective, DFIs should provide finance as directly as possible to local actors, through as few international intermediaries as possible. This finance should be provided with patient and flexible conditions, and contractual terms should be adapted to match local capacities.

Box 8: Questions to ask around resources:

- Are investment funds going to **locally-owned and managed** companies? How many of these are women-owned and managed?[103]
- How big a share of the funding goes through **intermediaries**? Are the intermediaries local (e.g., public development banks, locally-owned financial institutions)?
- Are these funds ultimately going directly to those **most in need** (aligned with the original purpose of ODA and meeting the most critical development challenges and climate action)?
- How **accessible** or burdensome is the funding (e.g., administration, legal, equity requirements)?
- Are financial transactions free from **donor self-interest** (e.g., profits, further economic or geopolitical interests)?

2.1. Local ownership

Businesses being locally owned is critical as this supports local economic development, resilience, job creation, strong communities, the reinvestment of profits into the local economy and economic value retention. Local businesses are deeply rooted in communities, they understand local needs, and they can adapt quickly to changing circumstances and strengthen local supply chains.[104] There is also a growing trend across Africa to introduce and/or strengthen local ownership and empowerment regulations to protect sectors of national importance, redress historic economic imbalances, protect Indigenous populations and increase their economic participation, and drive national industrialisation.[105]

Box 9

"Local and Indigenous entrepreneurs can see firsthand the development challenges that need to be addressed within their communities and are often best placed to provide workable and scalable solutions. They also tend to be more committed to the region because it's not a 'market', it is their home. Local entrepreneurs don't pull out in economic downturns, and by weathering periods of intense pressure and volatility, they build resilience."[106] – Chris Chijiutomi, Managing Director and Head of Africa at BII

Local ownership can be understood in two ways:

- Legal registration of a company in a country where the economic activity is taking place
- The owner of a company has a permanent living place, citizenship or main residence in the country of investment and where economic activity is taking place

For a long time, foreign direct investment (FDI), which includes DFI investments, has been positioned as one of the key drivers of economic growth and poverty reduction in LMICs.[107] But more recently this narrative has been challenged[108] due to mixed evidence which suggests that the impacts of foreign investment are often unequally spread, and foreign ownership – especially in strategically important sectors, such as transport, infrastructure, energy, ICT and agriculture – can bring national security risks.[109] High volatility and unpredictability also occurs during times of economic crisis when rapid FDI outflows have a huge impact on jobs and incomes and raise inflationary pressures[110]. The Covid-19 pandemic and the 2008 economic crisis[111] are good examples.

FDI often drives a race to the bottom (i.e., governments offering various incentives whilst competing for FDI) and can be detrimental for tax revenue.[112] A study of the impacts of FDI on sustainable development in 48 African countries between 1990 and 2020 found 'a noteworthy unidirectional negative causality', with the worst impact more pronounced in low-income nations.[113] Another study, which analysed 28 developing countries[114] reached a similar conclusion: 'in the vast majority of countries, there exists neither a long-term nor a short-term effect of FDI on growth; in fact, there is not a single country where a positive unidirectional long-term effect from FDI to GDP is found'. The ILO and OECD have also shared concerns about the role of FDIs in poverty reduction, and argue that FDI inflows do not automatically translate into decent jobs, reduced poverty or the realisation of human rights. [115] [116]

There are also warnings about the risks of 'green colonialism', also known as 'colonialism 2.0',[117] due to the massive private and public international investment in green energy transformation currently being made, whereby international companies acquire ownership, profit-share and/or access to critical resources, which can lead to 'replicating historical patterns of resource extractivism and dependency'[118] and dangerous power imbalances regarding access, price, rights to produced goods, services and profits. These investments also often bring displacement[119] and environmental destruction as a result of the extraction of minerals such as lithium to support the green transition in high-income countries.[120]

While BII is not directly investing in the mining sector, it does support enabling infrastructure around mining projects. For example, BII is invested in the Owendo Bulk Port in Gabon, which facilitates the export of locally mined manganese ore[121] to China, India and major European steel production countries.[122] Moreover, foreign investments made by DFIs, including BII, in renewable energy production are not only supporting the energy needs of broader society but are also enabling extractive mining sectors.[123] This risks extremely limited development and climate finance[124] being spent not only on projects that support long-term decarbonisation and local energy needs, but also on projects that favour the interests and choices of powerful international market players.

As per BII's Investment policy, as well as FCDO guidance,[125] investment must either be: a) in a company or other entity which has its principal business or headquarters located or organised in an eligible country; or b) expected to result in a significant development impact in the eligible country (either solely or in combination with projected future BII investments). This means that, if an investee does not have its headquarters in an eligible country, it can be formally registered elsewhere as long as its principal business takes place in an eligible country. Legal registration in a target country does not appear to be an advantage in the investment proposal stage. Neither does this policy stop investments being made in entities that are domiciled elsewhere if BII 'considers that it is appropriate to do so for fiscal, legal, regulatory, development or other bona fide reasons and it is consistent with CDC's Policy on Tax and Offshore Financial Centres as agreed with FCDO from time to time'.[126]

Most DFIs, including BII, have a combination of investments in foreign and local companies. BII states that it does not systematically collect information on the share of local companies (i.e., owned by local entrepreneurs) within the small medium enterprises (SMEs) that have received fund investments.[127]

Domicile of an investee is one of the simplest indicators to distinguish between local and foreign companies and determine an investee's economic, legal and social connection with the communities and country where investments are made. Being domiciled outside the country where the investment is made does not necessarily mean though that the business cannot be owned by a local entrepreneur. In fact, there is anecdotal evidence about diaspora or local entrepreneurs using foreign domicile for their companies.[128] However, companies not only operating but also being registered in target countries undoubtedly have a stronger connection with the local economy – and as explained above, locally owned and led companies play a critical role in shaping and strengthening the local economy, and a country's capital, financial and industrial ecosystem.

Box 10: BII active investment commitments, per investment type, domicile and value in US $m, September 2025 data

Investment commitments	Number of investments	Share of total invest-ments	Total value, US $m	tax havens (TH)[129]	UK	India	other G7 (USA, FR, CAN, DE)	% of TH+UK+G7
intermediaries	301	48%	**8866.7**	5093.8	2605.3	370.3	420.6	92%
guarantees	47	11%	**2038.5**	359.7	862	9.6	250	72%
direct equity	156	19%	**3598.1**	810.6	991.2	1093.6	44.9	51%
debt	142	22%	**4043.6**	465.1	33.6	576.5	9	13%
TOTAL	**646**		**18546.9**	**6729.3**	**4492.1**	**2050.1**	**724.5**	
% of total value				**36%**	**24%**	**11%**	**4%**	

Based on our analysis of the information on BII's website about its current active investment commitments (as of September 2025: see Box 10), we note the following observations.

- Overall, 36% of all investment commitments go to companies domiciled offshore and 4% to G7 countries (excluding UK). In total, 24% of all BII investments go to companies domiciled in the UK, which means US $1 of every US $4 goes to home-based businesses to do business in LMICs. Only 18.6% of investments went to companies domiciled in Africa (excluding Mauritius), which presents a great challenge for the locally led development agenda as Africa represents 60% of total BII investment portfolio value. Just under half (48%) of all investment commitments go to intermediaries, 22% for debt, 19% for direct equity and 11% for guarantees.
- **Guarantees:** Out of all 47 guarantees, 72% go to UK domiciled companies, tax havens and other G7 countries. Among recipient countries, South Africa stands out with 15% of BII guarantees. There are only five LICs which have received one or two guarantees – Ethiopia, Kenya, Nigeria, Pakistan and Sierra Leone. Since 2013, UK-based Standard Chartered has had a special agreement with BII and has received US $750m in guarantee commitments,[130] making it by far the largest recipient of BII guarantees. Interestingly, guarantees provided to just six companies (Standard Chartered, First Rand Limited MRPA, Globeleq Limited, Afrexim Bank, Citi Fi MRPA and ABSA Bank) account for 67% of the total guarantees granted, indicating a highly concentrated use of this instrument among a few, very large market actors.
- **Debt** is the modality that has the strongest local ownership. Only 12% of debt goes to companies domiciled offshore and just 1% in the UK. Companies domiciled in five countries (Bangladesh,

Egypt, India, Nigeria and South Africa) receive 63% of all debt. Of all BII's finance modalities, debt is a controversial finance instrument. Using BII's own words, this is because 'loans create vulnerability because debt must be paid come what may'[131]. But debt allows DFIs to recycle funds faster and invest in other companies.

- **Direct equity** investment commitments: 51% go to companies domiciled in the UK, G7 or known tax havens (27.5%, 1% and 22.5%, respectively). It is worth noting here that 30% of direct equity investment commitments go to companies domiciled in India. Only 14% go to companies domiciled in Africa (excluding Mauritius).
- **Intermediaries**: A staggering 92% of investments are provided to companies domiciled in the UK, offshore or in other G7 countries. It also includes six investments to companies domiciled in China, which account for 3% of the intermediate investment commitments made. Fifteen investees receive 52% of the intermediate investment commitments made, which equates to around US $306m for each investee. Actis, an intermediary company which in 2004 separated from BII (when it was called CDC), received 25% of all intermediary investment commitments (US $2.3bn) from BII.

These findings show that the majority of BII's investments go to companies based in G7 countries (the richest countries in the world) or headquartered offshore. This is likely to be due to a variety of reasons. According to BII, offshore financial centres (OFCs) are often used for their familiar and stable financial, legal and regulatory environment, but 'never to avoid the payment of taxes or to conceal information'.[132] However, while 'the legal domicile of a fund may affect the taxation of investors' returns and it usually does not have implications for taxes paid by the businesses they invest in',[133] there is a broad acknowledgment that 'the use of OFCs does sometimes reduce developing countries' taxing rights'.[134]

Box 11: Mauritius

As per our calculations, 18% of all BII's investment commitments are channelled via Mauritius. Mauritius' attractiveness is driven by lower fees for professional services than European financial centres and an efficient and trusted process.[135] Even if tax is considered to play a minor role here, Mauritius is a tax haven: its corporate income tax rate is 15% which can be reduced even further to just 3% thanks to a partial exemption regime for global businesses. It also offers an eight-year tax holiday for innovation-driven companies, and it has a wide web of double tax avoidance treaties.[136] The Tax Justice Network ranks Mauritius as the top fifteenth corporate tax haven for a reason: it has 'almost no import duties, low energy costs, and the free repatriation of capital, profits and dividends to an investor's country of origin. It is because of this that a tonne of foreign investment is continuously poured into Mauritius'.[137] [138] It is estimated that, as a result of investment arrangements via Mauritius, governments lose around US $2.5bn every year in revenues, especially India and many African countries.[139]

BII's approach to tax and the use of offshore jurisdictions, is to provide protection of UK taxpayers' money and 'a stable financial, legal and regulatory environment for investment, furthering BII's developmental impact'[140]. BII only uses jurisdictions that are compliant with international tax transparency standards, as monitored by the OECD's Global Forum on Transparency and Exchange of Tax information. Moreover, the fact that BII is exempt of capital gains tax in the UK since 2003 incentivises BII to use home jurisdiction to comply with the tax neutrality principle.[141]

Investees' preferred domiciles – UK and offshore countries – reflect the distortive impact of the double taxation treaties' network on taxing rights and allowing international companies and investors to pay tax not where the actual economic value is created but where the most beneficial legal and commercial set up is offered. 'Tax treaties concluded by sub-Saharan African countries – with OECD countries in particular – have often resulted in them slowly ceding their taxing rights over income earned within their jurisdiction. This revenue loss is not comparable to the expected benefits from foreign investment.'[142]

Domiciliation matters. About 60% of African-focused investment vehicles are domiciled outside the continent. This 'limits the development of local capital markets and, therefore, constrains the launch and scale of businesses that could contribute to economic growth and employment'.[143] Moreover, channelling international development finance via offshore countries highlights an important contradiction, whereby 'risk aversion' (i.e., giving preference to established legal systems) actually reinforces structural barriers to economic transformation, development and autonomy by limiting taxing rights and not creating incentives for strengthening the national ecosystem or rules, regulations, policies and norms.

DFIs should engage with investees not only in terms of proposed business outcomes – be it creating finance tools for MSMEs, or expanding manufacturing capacity – but they should also consider the broader, macroeconomic impact of investees' business models; namely, their investment structures, legal set-up and operations. Current arrangements using Western or offshore jurisdictions for domicile may work perfectly for investees. However, it limits support for broader economic transformation and local market system development, where we need to help building demand for predictable, stable legal frameworks. DFIs could have a significant role working alongside local actors to strengthen legal, regulatory systems to support national development goals and provide fair rules for businesses, both local and international.

Regarding citizenship and residence of the legal owners of the investees, one of the 'inclusion' indicators of BII's impact score[144] is 'Black African ownership and leadership. BII's objective is to support businesses which are either owned or led by self-identified Black Africans regardless of nationality, their income or economic status'.[145] Progress is currently tracked internally and reported quarterly to BII's senior management. However, beyond a commitment to 'increase the number of Black-owned and -led businesses in our sub-Saharan Africa portfolio over the course of the current strategy period (2022-26)',[146] currently no public information is available on the baseline of this indicator, what the target is and the methodology for tracking progress. However, an independent review of BII's Industries, Technology and Services (ITS) investments portfolio concludes that 'retroactive analysis applying BOLD [Black ownership and leadership for development] criteria from 2012 to 2022 shows that 33 commitments meet at least one BOLD criterion (23 of which are funds and ten of which are direct investments), representing 43 per cent of commitments made in sub-Saharan Africa from 2012 to 2021'.[147]

It is highly commendable that BII is addressing local ownership but perhaps the BOLD indicator needs to evolve, ensuring that we recognise not just race but also business owners' roots and embeddedness in local communities, and where Africa is perceived as more than just an investment opportunity.

Recommendations

- Prioritise **locally owned and led businesses** which are fully embedded in the local economy (domiciled and paying taxes locally, led by local people instead of foreigners or expats).
- When investing in **foreign companies**, make it conditional that this company works extensively with local companies as partners and suppliers, and require the transfer of technology, knowledge and skills as part of the investment.
- BII should **revisit its policies around local ownership** to maximise development impact. Current practice regarding local ownership requirements should go beyond 'inclusion' reward[148] and be seen as a fundamental pre-condition for long-term sustainable economic development and transformation.
- **Publish analysis of the inclusion indicator** – investments in Black African-owned businesses since its introduction, and consider reviewing its effectiveness in measuring inclusion and focus on the locally led and owned.
- The FCDO and BII to **revisit BII's approach to tax and the use of offshore jurisdictions** to maximise the development impact of investments in advancing modern, reliable, local capital markets and legal systems.

2.2. Reaching the people most in need

Although there is no question that LMICs need all kinds of investments, the focus of development finance should be on the people most in need and those left 'furthest behind'.

DFI investments, which contribute to the US $4tn finance gap to advance the SDGs and address climate change, are not just about increasing economic activity in LMICs. Their focus should be on supporting the most pro-development and pro-climate sectors which contribute to building an enabling environment for poverty reduction, producing the most essential goods and services for poverty reduction, progressing climate action (mitigation and adaptation) and building local resilience and self-sufficiency.

The International Development Committee's (IDC) review of BII challenged whether the ultimate beneficiaries of BII's interventions are the world's poorest people, arguing that its investments are largely targeted at middle-income countries (MICs).[149] BII uses US $5.5 as a benchmark for the poverty line, which is higher than the World Bank's poverty line benchmark for LMICs. Although there are pockets of poverty in MICs, there are concerns that many investments in MICs are concentrated in broad-based financial conglomerates[150] (large corporations that own and control different companies operating across at least two of the banking, insurance and securities sectors) with limited additionality and impact on the poorest people in those countries. Many of BII's investments,[151] for example in India, provide benefits to middle-class consumers, rather than people from disadvantaged socioeconomic backgrounds.[152]

Our analysis of BII portfolio data finds that by the end of 2024, BII had only 14% of its portfolio invested in the least developed countries (by value and not including multi-country investments),[153] and only 14% by value invested in fragile and conflict-affected countries[154] (or only 7% if excluding Nigeria).

BII has tried to define which countries are 'most in need' (see Box 12), and categorises these as 'alpha countries'.[155] In 2024, only US $268.5mn,[156] or 16% of all investment commitments (US $1.75bn), were

invested in alpha countries.[157] In 2023, BII commitments to alpha countries was US $286mn or 21.88% of its total 1.31bn investment commitments[158]. However, analysis of portfolio data show that overall, only around 4% of investments are directed to alpha countries and 29% - to beta countries (excluding multi-country investments). This leads us to conclude that investment decision-making and BII's operational model have not been designed to increase the share of investments to support the poorest communities in the poorest countries. BII's 'Kinetic portfolio', which was introduced in 2021 and now consists of three sub-programmes (climate innovation, mobilisation and Africa Resilience Investment Facility (ARIF)), was supposed to grow support for alpha countries because it has a higher risk tolerance and focuses more on Africa's LICs[159]. BII does not disclose disaggregated information about share of BII's total active investment commitments and total portfolio invested in alpha and beta countries, as this is not required under BII's Transparency and Disclosure policy.

Box 12: BII's 'most in need' alpha countries[160]

South Sudan, Burundi, Somalia, Central African Republic of Congo, Democratic Republic of Congo, Republic of Guinea-Bissau, Liberia, Eritrea, Niger, Togo, Malawi, Sierra Leone, Tanzania, Chad, Mali, Benin, Sudan, Rwanda, Zambia, Mozambique, Madagascar, Afghanistan and Haiti.

Due to format of publicly available data, it is difficult to assess exactly how much and what kind of investments are made in specific countries. This is because many investments are multi-country and do not specify the amount invested in each specific country. For example, of all direct investment commitments, 17% by value (or 23% by number of investment commitments) are multi-country investments, which makes it difficult to quantify the contribution to specific countries.

2.2.1. Not the billionaires

When talking about most in need, it is not enough to focus on local businesses, as in every country there will be successful, high profit, large, established companies alongside many micro, small businesses which struggle to access finance and make ends meet. The financial position, status and wealth of the business owners who get supported via DFI funds does matter.

Our analysis found that there are at least five billionaires – all of whom are men – in whose businesses BII has invested. This raises the question of whether billionaire-owned companies are the most appropriate vehicles for receiving or channelling ODA-backed public development and climate finance, and to what degree such investments align with the letter and spirit of ODA principles. If we want to incentivise big, well-established companies to have a strong social and development impact, is scarce ODA the right instrument to do that?

Box 13: Billionaires: shareholders of BII investees

- **Sri Prakash Lohia**, an Indian-born Indonesian billionaire. Owns Indorama, a fertilizer business[161] in Nigeria; wealth US $6.85bn.[162] BII's total active investment in Indorama is around US $190m.
- **Othman Benjelloun**, a major shareholder of BMCE bank, where BII has invested $205m; his net worth is US $1.1bn[163].
- **Muhammed Aziz Khan**, owns Summit Meghnaghat, a dual fuel power plant in Bangladesh. Khan was among the 50 richest people in Singapore in 2024 and in the Forbes' 2024 billionaire list with net worth of $1.1bn.[164] BII invested US $17.5m in Summit Meghnaghat in 2014.
- **Rafiq M. Habib**, shareholder of the Habib Bank, which is the oldest commercial bank in Pakistan. His net worth is over US $1bn;[165] BII has invested US $196.9m in Habib Bank.
- **Yerim Sow**, the richest man in Senegal (wealth estimated at more than US $0.5bn)[166]. Owner of Teyliom group (luxury hotels and hospitality) which owns the Inaugure hospitality group where BII has invested around US $32m.
- **Ranjan Pai**, the owner of Manipal (domiciled in Mauritius), a private healthcare provider, worth US $2.8bn.[167] BII committed US $59m[168] to Manipal, but in December 2023 it exited this arrangement.

BII has committed over US $640m in companies owned by the five billionaires (excluding Ranjan Pai). This is around half of what BII has invested in the least developed countries, almost as much as the value of total BII investment portfolio in South Africa or double its investment portfolio in Uganda (2024 end values).

It is worth noting here that all these investments are not only questionable in terms of 'most in need' and additionality, but also of the business itself.

Although BII notes that its Indorama investment is not expanding fossil fuel production but focusing on natural gas feedstock, which otherwise would be flared, how can fossil fuel-based fertiliser production[169] for local and export needs corelate with national decarbonisation goals, and the UK's commitment to stopping investments in fossil fuels overseas?[170] There is growing evidence,[171] innovative solutions[172] and market appetite for expanding organic fertiliser production[173] in Africa,[174] with China, the USA and India already leading the way as the biggest organic fertiliser producers. Investing in organic fertilisers also aligns with goals on local food security, nutrition, healthy soils and long-term sustainability and biodiversity protection.

Similarly, how will a dual fuel (gas and diesel) power plant in Bangladesh help Bangladesh transition to renewable energy and help to achieve global targets of tripling renewable energy production? Considering how far off Bangladesh is on its clean energy journey, how do investments[175] such as this help to mitigate climate risks?

And can we justify the development of luxurious 5-star hotels across West Africa, facilitating inter-regional business and tourism flows, as part of enabling environment and poverty reduction?

These examples demonstrate two problems:

a. **Additionality:** Do multi-billion businesses with extremely wealthy owners need concessional finance to expand or grow their business or align it with the SDGs and Paris agreement, alignment which is increasingly expected of any large responsible business? What exactly are the obstacles they face to access finance in private capital markets or indeed reinvest their own profits? Are these the business opportunities which public finance needs to support?

b. **Trickle-down effect:** Most of these and similar investments are based on the assumption that growing wealth, and a middle-class population and their consumption, creates jobs and wealth for the poorest people. However, for this to happen other preconditions must be in place, such as strong economic linkages between wealth creation, economic growth and the livelihoods of the people living in poverty,[176] supported through effective, democratic and fair redistributive mechanisms,[177] quality and universally accessible basic public goods[178] and services and good labour standards. Most people escape poverty through 'growth from below': intentional, supportive, context-specific, pro-poor policies which create safeguards against potential and often predictable economic, social or environmental risks.[179]

2.2.2. Informal sector

Nearly 83% of employment in Africa and 85% in sub-Saharan Africa is informal,[180] and the informal economy represents 65% of GDP and about 30-40% of trade.[181] Of the people Africa's informal sector employs, 66% are women and people living in extreme poverty.[182] It is important to note that women are over-represented in the lowest paid, most precarious forms of work, and many people working for 'formal' companies as part of global value chains also work in conditions of informality, for example, lacking contracts, access to social protection and collective bargaining rights.

Although sometimes, BII investees have varying proportions of informal workers in their workforce, BII and many other DFIs do not work directly outside the formal sector.[183] Neither does BII have any clear incentive to develop initiatives and products which would allow it to target and support informal businesses or enable it to formalise this support, including in ways that ensure decent work for employees (and hence go beyond more common 'formalisation' motivations to expand the tax base). It is also unclear to what extent intermediaries are incentivised to develop finance instruments supporting informal businesses. As a result, large segments of economies across Africa remain marginalised, except through indirect impact further down supply chains.

Focus group participants agreed there should be finance instruments available to engage and finance small, locally anchored companies operating in the informal sector, which make up a significant share of business in BII investment countries. Rather than working around the informal sector, and thus excluding the most financially and socially unprotected population, small, locally anchored companies in the informal sector should be included in a broader co-planning process, one which supports decent work and efforts to formalise where needed. Throughout the full investment lifecycle, DFIs like BII should work with other institutional vehicles, or through its own technical assistance instruments, which invest in strengthening the capacities of local business associations and incubators to ensure they are complementary, thus combining capacity building actions with early-stage financial support.[184]

Considering the vulnerabilities around informal work, this is exactly what ODA financed investments should be focusing on – creating decent employment opportunities for those with precarious work and income, and supporting the creation of an enabling environment and incentivising business to formalise and thus benefit from broader socioeconomic ecosystem building.

2.2.3. SMEs and MSMEs

Micro and small medium size enterprises (MSMEs) are the backbone of Africa's economic development and the key element of the local socioeconomic fabric and ecosystem: across LMICs small medium size enterprises (SMEs) make up about 90% of the private sector and create more than 50% of jobs.[185] In Africa, SMEs represent more than 90% of businesses and provide about 60% of jobs.[186] Sub-Saharan Africa alone has 44 million MSMEs of which almost all are micro. There is no question that MSMEs should be the key focus and target of public development finance if we want to shape and transform economic

development across Africa, enabling people, especially women, to own, grow and expand their business and generate wealth which is distributed widely rather than concentrated in few hands.

While high-income countries define MSMEs as businesses employing up to 250 employees (OECD standard)[187], the definition is different in developing countries to reflect the different realities of economic ecosystems in LMICs. For example, in Nigeria SMEs are defined as having up to 199 employees, but in Kenya they are defined as having up to 99 employees with a specific annual turnover limit.[188] However, BII and other DFIs mostly use the International Finance Corporation's (IFC) definition of SMEs as business with fewer than 300 employees,[189] which goes beyond the OECD definition.

Across its portfolio, as of 2024 BII had invested in 1,671 companies[190] (an increase from 1,580 in 2023).[191] In 2023, BII stated 'of the firms supported, 56% are SMEs (under 300 employees), of which 26% are small businesses (under 50 employees)'.[192] This is only slightly higher than it was in 2021 when 54% of all companies supported were SMEs and only 20% of all companies had less than 50 employees.[193] It remains unclear how many of these companies correspond to the actual definition of SMEs in the countries where BII invests.[194]

Only 9% of SMEs were reached through direct investments,[195] which means the primary modality to target SMEs are intermediated investments. As the definition of SMEs varies across countries, focus group participants argued that using SME as a metric[196] does not provide sufficient details about the businesses that are actually financed and how/ to what extent these investments help to achieve development and climate action objectives. An East African participant highlighted the case of Equity Bank Kenya, where since 2020 BII has held an US $87.5m direct debt investment. While the bank was established in the 1980s to target lower-income customers, only 60% of its total business is thought to service SMEs.[197]

BII's 2021 annual review reports that the banks and financial institutions that it supports have granted a total of US $50bn in loans. While only 15% of these loans (US $7.8bn) were given to SMEs, an independent evaluation of BII's financial services portfolio concludes that its investments have increased the credit lines to SMEs in absolute terms but have not increased the share of financial institutions' lending portfolio.[198] Since 2023-2024 we have seen BII shift towards a more targeted approach by partnering with financial institutions that specialise in SME support (for example, Growth Investment Partners Ghana)[199]. However, there is lack of analysis as to what degree these SME loans support local development needs, climate action and economic transformation. Information on BII's website regarding the individual investments outlines these as intentions but is not updated with actual performance data.

We found that 20 companies have received BII's active investment commitments worth US $6,85bn, which is about 75% of BII's total 2024 portfolio value or 37% of all active investment commitments (See Annex 1). Of course, some of these include finance institutions which then on-lend to SMEs, however, this raises a concern about the concentration of BII investments within a narrow circle of investment partners. Moreover, only 7 out of these top 20 investment partners are domiciled in the actual countries where the business activities are taking place.

BII is not mandated to do sovereign lending. This prevents it from collaborating with national development banks, which are local entities established by national governments to build the local capital market and mobilise domestic and international resources to tackle various development and climate challenges. There is growing support – including from think tanks, academia[200] and the development finance community[201] – for DFIs to more closely collaborate with national PDBs, including through sovereign lending. The FFD4 Compromise of Seville echoed this, as it encouraged multilateral development banks (MDBs) and other international development finance institutions to provide financial and technical support to national development banks to invest in sustainable development.[202]

The benefits[203] of sovereign lending include but are not limited to:

- catalysing further capital mobilisation of NDBs[204]
- supporting stronger local capital markets and locally led economic transformation
- accessing local expertise, especially in more fragile contexts, around risks, women and other underserved groups and their challenges, which DFIs will not have
- minimising the transaction costs of working with SMEs directly[205]
- linking DFI investments more directly with a country's priorities and needs
- expanding lending in local currency which minimises the currency exchange risks for local businesses.

Box 13:

Malawi Development Bank provides finance to SMEs, starting from about £6,700, in clearly specified areas which are critical for Malawi development. These areas include agriculture, clean energy, ICT, and equipment for education institutions. If BII could do sovereign lending, it could strengthen a country's national capital market and enhance the capacity of NDBs to connect strategic national development needs with local and international finance through a broad and targeted reach to MSMEs. NDBs can offer more patient, long-term concessional finance to achieve development and climate goals.

Recommendations:

- Develop clear metrics and ways of measurement for those **'most in need',** aligning with universally agreed metrics to ensure that these publicly funded investments maximise direct value for the poorest segments of society.
- Develop clear targets and strategies for **increasing investments in LICs,** where the greatest needs are, both in terms of number and volume of investments.
- Enhance **research** on DFIs' (positive and negative) **impact on SMEs,** and more systematically finance the SMEs that are anchored in the local economy.
- The FCDO should consider expanding BII's mandate, allowing **sovereign lending** and enabling BII to follow other DFIs (AFD, KFW, IFC etc.[206]) by working directly with NDBs, which as (mostly) publicly funded bodies are mandated and specialised in addressing development and climate challenges as well as accelerating inclusive and economic transformation.
- Following the UK government's endorsement of the Seville Platform of Action initiative on country platforms,[207] evolve BII's mandate to enable the operationalisation and implementation of **country platforms.**[208][209] This would enable BII to engage with and support country platforms delivering country led and owned development agendas by pooling domestic and international funds. Country platforms will reduce administrative costs, increase value for money and minimise duplication of effort for international actors delivering investment initiatives.
- BII, together with NDBs, to develop accessible finance instruments targeting the **informal economy,** especially for women and to promote decent work, access to public services and social protection, which hold the greatest potential for reducing extreme poverty and inequality.
- Consider exploring using a **share of BII profits on a country basis as grants to support civil society**, so that civil society can fulfil its democratic role of holding development actors – domestic and international – to account. This will ensure that BII is not just investing and extracting all profits but is sharing them with respective countries' civil society to advance local civic space, accountability and transparency – something that is more critical than ever, given the shrinking civic space, fragile financial sustainability of civil society sector which has been exacerbated by the aid cuts.

2.3. Access to funding

BII recognises the crucial role and financial constraints of MSMEs in countries where access to finance is difficult.[210] According to the International Finance Corporation's (IFC) SME Finance Forum database, MSMEs in developing countries are one of the 'strongest drivers of economic development, innovation and employment'. Yet, they face a financing gap of close to US $5tn, and 41% of these businesses have no or limited access to finance, with proportionally higher needs for women-owned businesses.[211] This is a gap which DFIs, being able to take above average risks, could address far more effectively than is currently the case. The cost-of-capital crisis is hitting the SMEs hardest, due to both risk perception and high base rates driven by international capital markets.

BII is able to support MSMEs and SMEs in two ways:

1. **Direct lending:** BII's investments target opportunities of above US $10m,[212] which in most cases is way beyond what an average MSME can take on, therefore this option is *de facto* ring-fenced for big corporates or boutique players.

2. **Dedicated MSME finance instruments through banks and other financial institutions**: SMEs with a convincing business case that meet other conditions (e.g., collateral) could receive intermediated investments through private equity funds or financial institutions with which BII partners.[213] This finance may or may not be linked to specific development and climate change objectives. In recent years BII has increased investment in supporting SMEs through intermediates. For example, in 2023 it launched Growth Investment Partners (GIP), a pioneering investment platform to boost funding for SMEs in Ghana. GIP offers flexible financing options tailored to the needs of each borrower.[214]

Expectation that further on-lending will allow BII to reach smaller local companies as key drivers of their economies is complicated by the fact that BII's and financial intermediaries' risk appetite can differ, making the outcomes less predictable. There is no clear evidence that BII-backed finance would be offered at a concessional/lower interest rate, which is what is needed to address the cost-of-capital crisis and close the massive MSME lending interest rate gap between high-income countries and LMICs.

Interest payments of 20-25%[215] are not unusual, with alternative lenders going as high as 40-50%, which makes business loans extremely expensive in absolute and relative terms, leaving businesses in stagnation.[216] Such rates would be unimaginable in Europe, where single digit rates are the norm. For example, Light Microfinance in India, where BII has invested over US $9m, offers loans at a 24-26% rate,[217] and Equity Bank in Kenya offers loans at a 25% rate[218] while in 2025 providing the largest ever dividend payout after net profits of 10.9%.[219] Fido, a digital loan platform in Ghana supported by Ghana Growth Investment Partners, which was founded by BII, offers loans[220] of up to GBP £150 with an overall interest rate of 13%, but for loans of up to GBP £350 for customers of more than one year, the total cumulative interest goes up to 34%.[221]

Access to affordable finance was one of the key issues brought up during the focus groups. There were strong concerns for local economies and entrepreneurs which do not have access to concessional finance, while larger, mature and even international entities would be seen as preferred investees. This does not only drive smaller, less visible local companies out of markets, it also creates distortions for micro-enterprises. Yet, these are the companies with the highest potential to produce goods for local markets and create decent employment.[222]

Recommendations:

- Provide **clear incentives** to support local companies with a more accessible, concessional, affordable cost of capital rates.
- DFIs should support the cost-of-capital agenda with the objective of reforming credit ratings and risk perception.
- Lower the **threshold** for direct investments to better align with the needs and capacities of SMEs.
- **Ring-fence a share of BII investments to support MSMEs** through a diverse range of local intermediary financial institutions, such as PDBs, with clear development impacts, concessionality, and alignment with national sustainable development and Nationally Determined Contributions (NDCs).

Annex 1: Biggest BII investment partners by volume (active investment commitments as of September 2025)

No.	Name	Amount, USD	Domicile	Description
1	Actis	**2,315m**	UK	Actis is a leading investor focusing on energy and infrastructure, real estate and general sectors, including consumer, education, financial services, healthcare, industrial, manufacturing and retail. Actis was formed in 2004 following a restructuring of CDC (BII's former name), designed to bring more equity capital into developing countries. This means the two organisations have a shared history.
2	Standard chartered risk sharing facility Standard Chartered Bank MRPA	**750m**	UK	A UK-based bank with the Singapore government being the major stakeholder. Provides funded/unfunded guarantees to bolster the trade finance needs of SMEs and corporates across Africa and South Asia, with the goal of promoting economic growth in these regions.
3	Africa Gateway	**360m**	UK	Port investments in Senegal, Egypt and Somaliland.
4	India Infrastructure Fund	**300m**	Mauritius/ Singapore	Infrastructure fund, investing in India.
5	Globeleq limited	**269.6m**	Guernsey	Energy production: eight out of nine assets are renewables across seven countries (Cote d'Ivoire, Cameroon, South Africa, Mozambique, Tanzania, Kenya and Egypt). BII controls 70%.
6	Helios	**245m**	Luxembourg, Mauritius, Cayman islands	Pan-African mid- and large-capital private investment firm.
7	Ayana Renewable power	**233m**	India	Solar and wind power, India; BII exited in 2025.

8	Global partnership for Ethiopia	**233m**	Netherlands	Mobile network
9	BMCE Bank of Africa	**204m**	Morocco	Finance
10	African Development Partners	**204m**	Mauritius, Guernsey	A pan-African fund which focuses on high-growth companies targeting Africa's rising consumer class.
11	MedAccess	**200m**	UK	HIV diagnostics tests; owned by BII.
12	Eastern and Southern African Trade and Development Bank	**200m**	Mauritius	Invests in a range of sectors, including agriculture, trade, industry, infrastructure, energy and tourism. Provides a range of financial products and services across both the private and public sectors in 17 countries.
13	Indorama Eleme Fertilizer & Chemicals Limited	**190m**	Nigeria	Fertiliser production, based on natural gas, for local consumption as well as exports, including to the UK and USA.
14	Suez Wind Energy S.A.E.	**190m**	Egypt	A special purpose vehicle for constructing and operating a 1.1 GW wind farm in the Gulf of Suez region in Egypt.
15	FirstRand Limited MRPA	**175m**	South Africa	Funded/unfunded guarantees to increase the availability of trade finance across sub-Saharan Africa. The largest financial institution by market capitalisation in Africa.
16	Gridworks Development Partners	**174m**	UK	A development and investment platform principally targeting equity investments in transmission, distribution and off-grid electricity in Africa.
17	African Infrastructure Investment Fund	**171m**	Mauritius, South Africa	Invests across Africa according to three key themes: 1. digital infrastructure (including mobile telecoms towers, datacentres and fibre optic networks); 2. energy transition (including renewable energy generation); 3. mobility and logistics (including ports, roads and other supporting infrastructure).

18	Capital Alliance	**147m**	Mauritius, Cayman islands	Investment in West Africa.
19	RBL Bank limited	**146m**	India	India; BII exited in April 2025.
20	ARM Cement	**144m**	Kenya	Cement and fertilizer.
	TOTAL	**6.850bn**		**Top 20 BII investment commitments**

[1] It is worth noting here Robert Chambers and his influential book *Rural Development: Putting the Last First* and other publications, which evolved the concepts of participation, inclusion and Indigenous technical knowledge.
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[6] See Publish What You Fund, 2025, *Promises Versus Progress: How transparent are foundations about their local funding commitments?*, PWUF, London. As the original file on the USAID website is deleted, this report includes the statement in the Annex 1.
[7] Bond, (2025), *British International Investment: a review of its changing mandate and impact*, Bond, London.
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[18] UN High-Level Expert Group on Beyond GDP, 'What is Beyond GDP?' [web page, accessed December 2025], UN, New York.
[19] Intersecting inequalities include the discrimination and disadvantages individuals face around employment, social mobility, gender equality, climate change and access to healthcare and education. These can be significant obstacles which stop many people experiencing the benefits of economic growth.
[20] Baguios, A., King, M., Martins, A. and Pinnington, R. (2021), *Are we there yet? Localisation as the journey towards locally led practice: models, approaches and challenges*, ODI, London.
[21] Only specific large companies would fit this 'local' category because larger businesses usually have easier access to private capital markets, and they should not be seen as the target of a scarce international development finance.
[22] In this report we use BII data for our analysis, however we believe that broader framework, reflections and recommendations will be applicable and relevant to the wider DFI community.
[23] FCDO, (2023), *International development in a contested world: ending extreme poverty and tackling climate change. A White Paper on International Development*, 2.18, p.37, UK Government, London.
[24] Euorcentrism is a world view which positions a particular and mythical experience of the development of capitalism in Western Europe as central, interpreting all other phenomena only in relation to it. It presents capitalist development in Western Europe as happening through improvements in technologies, hard-work and rationality. But it dismisses violent processes of exploitation, expropriation and change in social relations that underpinned the development of capitalism. See Dutt, D. et al., (2025), *Decolonizing Economics: An Introduction*, p.16, Polity, Cambridge.
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[32] See FCDO, (13 September 2023), 'International Development Committee: Investment for Development: the UK's strategy towards development finance institutions: FCDO written evidence', p.23, UK Government, London. In late 2024 BII joined other DFIs in launching a new renewable energy platform SARA (Southeastern Asia Renewable Assets) to support renewable energy infrastructure development in the region. See Impact Investor, (24 January 2025), 'BII and FMO invest $120m into Southeast Asian renewable energy project' [online article, accessed December 2025], IPE, London.
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