British International Investment

Productive, Sustainable and Inclusive Investment

2022 – 26 Technical Strategy

Foreword from the Chief Executive

The world has changed a lot in five years. The COVID-19 pandemic has pushed well over 100 million people into extreme poverty. It has brought on the deepest global economic contraction in decades, with Africa experiencing its first recession in 25 years. Climate change has become the climate emergency, and every part of the globe is beginning to experience its effects. And we are witnessing greater understanding of the systemic injustices that hold people back and that lead to the burden of poverty falling unequally within populations. This is a time of tumultuous change and uncertainty about what the future holds.

Despite this global upheaval, I have reason to be optimistic about the future, and our role, as the UK's development finance institution, in helping create sustainable and equitable economic outcomes. The past five years have also shown how international cooperation can quickly and innovatively meet global challenges. 'Build back better' is no longer a slogan, but is galvanising concrete action, including from the G7, to focus on improving infrastructure in low and middle-income countries to support those countries in achieving their goals.

We will be a key part of the UK's new economic partnerships to 'Build back better'. Our involvement recognises that impact investment – capital dedicated to achieving positive economic, environmental and social change – is a vital way we can support our partners. We're proud that we can play a central role in the UK Government's international financing offer. However, our existing name does not make clear to our partners that we are British – or what we provide. Therefore, we will change our name to British International Investment plc. Our new name clearly defines us as a British institution working to bring not just capital, but the highest levels of ethics, standards and transparency to our markets. We will ensure that British International Investment develops further what has been a unique British success story at CDC.

Adapting to the challenges ahead

Our new strategy builds on the mandate that has been at the heart of our work for nearly 75 years, and our successful record over the last decade. It reflects our view of the global challenges and opportunities that lie ahead. We have set three clear strategic objectives that will ensure our capital is used in the best way possible to meet those challenges and opportunities. These will be underpinned by a new scoring system to help refine our choices and maximise our impact. Our objectives are to invest to support:

- **Productivity:** to raise the productivity of an economy to support higher incomes and a decent standard of living for all.
- **Sustainability:** to address the climate emergency by helping to transform economies to reduce greenhouse-gas emissions, protect the environment, increase climate resilience, and contribute to a greener, cleaner planet.
- **Inclusivity:** to ensure the benefits of higher productivity and greater sustainability are shared with the poorer and more-marginalised sections of society.

Through these, we will ensure that British International Investment – and the UK – remains a global leader and innovator in the field of achieving impact at scale. To do this, we will refine and sharpen our approach. We will put technology investment, climate finance and inclusive finance at the heart of our mission. We will draw on our experience to tailor more precisely the ways we invest in different countries. We will use different financial products to increase our impact and open up new markets. In doing this, we will use our proximity to the City of London to mobilise other investors and reinforce the UK's position as a hub for development finance. Generating new products and portfolios with different risk appetites has always been a hallmark of how we do things, and an approach we will continue.

Green infrastructure and climate change

Countries in emerging and developing economies remain the most vulnerable to the impact of the climate emergency, and the least equipped to respond to it. Over the next five years, at least 30 per cent of our total new commitments by value will be in climate finance. This will make us one of the world's largest climate investors in Africa. We will also start providing climate finance in the Indo-Pacific region, specifically in the larger economies of the Philippines, Indonesia and the Mekong region, with a particular emphasis on green, renewable infrastructure.

Financing digital transformation

We will invest more in earlier-stage, disruptive businesses that offer radical solutions to global challenges. Technology-based businesses, including those that can build major digital infrastructure, are in desperate need of responsible, patient capital. We will step in to support them.

Driving inclusive outcomes

We'll continue to strengthen our approach to gender and diversity finance. We are already a leader in the field of investing for women's economic empowerment, and we have set a new target for 25 per cent of all new investments to qualify under the 2X Challenge, the initiative to boost financing for women. We will increase the representation of black African-owned and led businesses in our sub-Saharan Africa portfolio.

Looking forward with confidence

The scale of global development challenges can seem daunting. But impact investment works. It is what our partners in Asia and Africa and beyond want, and it is what the international system needs to help provide it. Such investment unleashes the potential of businesses to create jobs and prosperity, restore local environments and bring about positive societal change. UK development finance, properly deployed for the benefit of those most in need, has never been more important.

Nick O'Donohoe
Chief Executive Officer

Executive summary

We are the UK's development finance institution. Our **vision for 2026** is to become one of the leading impact investors serving Africa, Asia and beyond, unleashing the power of the private sector to raise living standards, tackle climate change and bring about positive societal change.

Our **2022-26 strategy** describes how we will work towards this vision over the next five years. It builds on nearly 75 years of history, and what we have learnt from investing in Africa and South Asia since 2012. It sets outs **three strategic objectives** that respond to the opportunities and challenges we see in the countries we serve. We will invest to achieve:

Productive development – by raising the productivity of an economy so that it can support a decent standard of living for all;

Sustainable development – helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate; and

Inclusive development – sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.

To achieve our productivity objective, we will focus on **digital transformation**, by pursuing investments in critical digital infrastructure and providing capital to innovative digital businesses. To achieve our sustainability objective, and support net-zero pathways, we will target 30 per cent of all new investments to qualify as **climate finance**, test new investment approaches for natural capital solutions, adaptation and resilience, and provide climate finance to the Indo-Pacific. To achieve our inclusivity objective, we will target 25 per cent of all new investments to qualify under the 2X Challenge as **'gender lens' finance**. To achieve all our objectives at greater scale, we will step up our core investment programme to around £9 billion over the next five years.

We will be **sector-led** in our approach to finding, creating and managing successful investments. We will be major infrastructure investors, investing in clean power and energy systems, sustainable transport and logistics, climate-resilient urban infrastructure and utilities. We will invest in the SMART sectors (services, manufacturing, agriculture, real estate and technology) that together represent the lifeblood of any modern economy, and have strong potential to grow though digital transformation. We will invest in and work with financial services to direct capital in a way that has a positive impact on women, marginalised groups, the environment and the growth of small and medium-sized enterprises (SMEs).

We will **provide flexible solutions** to firms and markets through our broad capital toolkit and appetite for risk. The toolkit spans the entire capital spectrum, from investing in ordinary shares to providing senior debt. Our risk appetite is unique among major development finance institutions and allows us to hold significant equity investments and holdings in local currency. We channel capital into investments we hold directly, where our team selects and influences investees, and indirectly through the reach and specialism of partner institutions. We will also invest in 'platform' companies, such as MedAccess, Gridworks or Globeleq, to address specific impact opportunities – companies that we control and sometimes set up when the market needs new solutions. We will continue to provide technical assistance to our portfolio and beyond.

We will **expand our Catalyst portfolio**, which takes a flexible approach to risk in exchange for pioneering impact. Building Catalyst was a major development in our 2017-21 strategy. Managing an in-house pool of high-impact capital differentiates us from development finance peers, and since 2017, we have committed around £750 million. We expect to grow our Catalyst portfolio to 10-15 per cent of our total portfolio by value, by 2026. We will also draw on the new Climate Innovation Facility to finance the growth of technologies to help communities deal with the impacts of climate change.

We will **tailor our approach to individual countries** – to meet unique needs and opportunities, and draw on our experience of what works where. We will have a broad offer and significant in-market presence in 'Powerhouse' countries – such as Nigeria, Egypt, and Pakistan. The more mature countries of India and South Africa will remain important, especially for climate finance. We will maintain significant exposure to fragile states (following the OECD classification) but to reach smaller fragile and extremely fragile countries effectively, we will typically invest through regional companies and platforms, and specialist intermediaries.

We will **expand our climate-finance offer to the Indo-Pacific, and also have the flexibility to invest in the Caribbean**. In the Indo-Pacific, we will focus on the major markets of Indonesia, Philippines and the Mekong region. Climate mitigation is a global public good that knows no geographical boundaries. There are significant opportunities to decarbonise and strengthen the power sector through renewable energy, and support investments in the water and sanitation sectors.

We will continue to **build partnerships with the best commercial operators and investment houses**. The best are often British, as with our recent partnerships involving Lightsource BP, Vodaphone and

GlaxoSmithKline, and our support to British investment managers helps to make the UK a hub of development finance. We will **mobilise commercial investors** of different types, including sovereign wealth funds, in a range of ways enabled by our flexible capital toolkit. We will **work closely with HM Government**, alongside its policy and diplomatic support, and its other financing tools and packages of expertise, as a key part of the UK's offer to supporting countries' economic transformation.

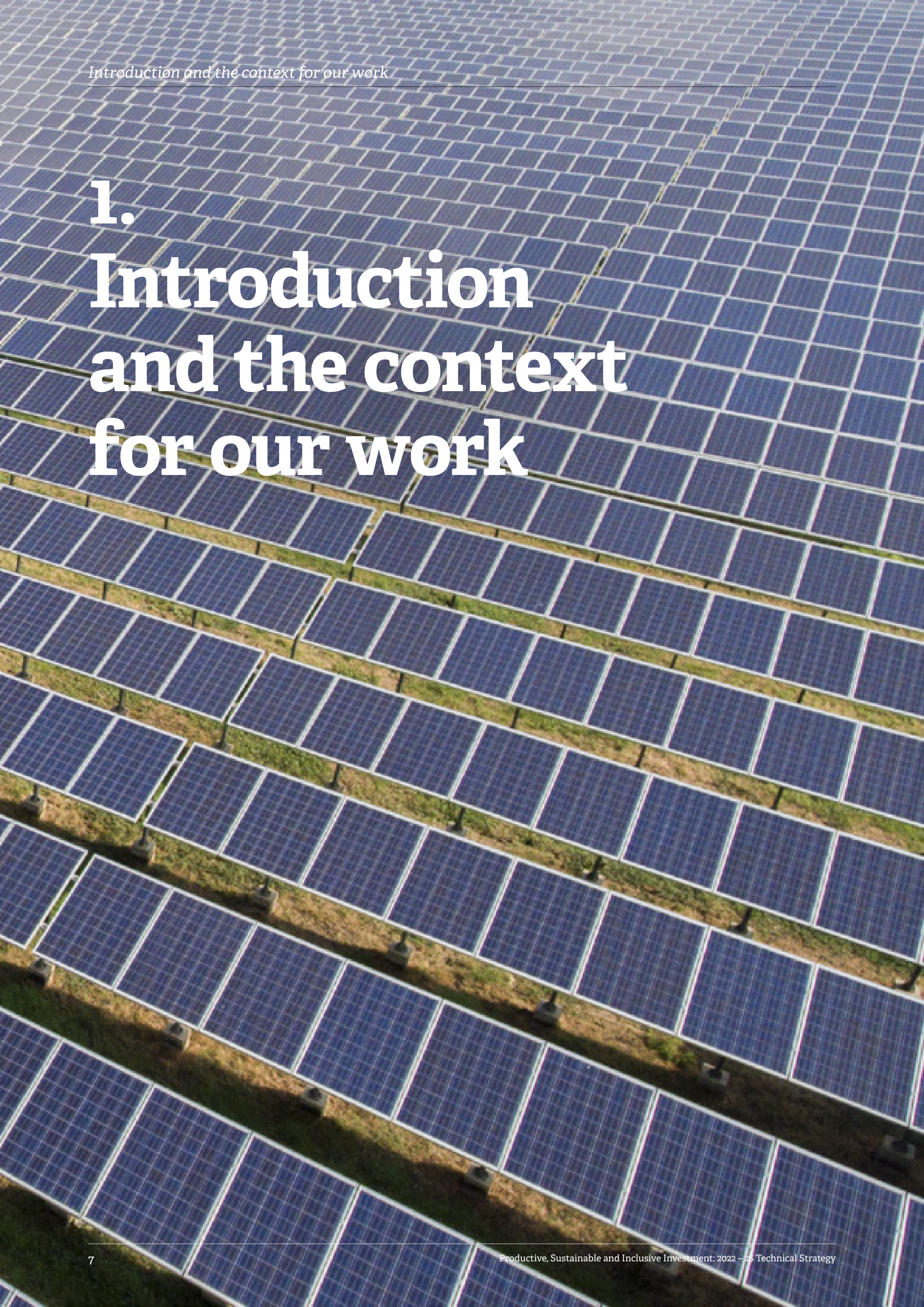
We will **maintain world-class standards in impact management and responsible investing**. We are an impact-led firm, and have substantially built up our impact management framework over the past five years. We will continue to improve business practices among our investees, including in areas of environment, social and governance, business integrity, safeguarding and tax transparency. We are publishing our Policy on Responsible Investing alongside this strategy, to reflect our emerging requirements.

We will **explore new capabilities to provide a wider private-sector offer** to nurture economic development and, by extension, the long-term pipeline for private-sector investments. These potentially include providing advisory services for shaping markets and building an investment pipeline. They might include specific capital pools focused on mobilising commercial investors, or to blend concessional capital with our own investments to support the most innovative and impactful business models.

In everything we do, we will **have clear measures of success**. Two primary measures of success are defined in our new Investment Policy, published alongside this strategy. First, a new portfolio-level Impact Score derived from our strategic objectives – Productive, Sustainable and Inclusive. Second, a rolling seven-year financial performance measure, requiring portfolio returns of 2 per cent or higher, measured gross of costs. These two measures reflect our intention to maximise development impact, while remaining a sustainable financial institution.

We will **change our name to British International Investment**. Our new name says clearly who we are and what we do, and that we are a key part of the UK's international financing offer. Our name and our ambition are changing – our mission and core ethos remain constant and underpinned by almost 75 years' experience of investing for development.

Our 2022-26 strategy is deliberate and considered. It reflects our view of the opportunities where we invest, what we have learnt, and the recommendations of others, including the International Commission for Aid Impact (ICAI), who rightly scrutinise what we do and help us improve. We are confident that – if we execute this strategy successfully – by 2026, British International Investment will be the preferred partner for private-sector development across Africa, Asia and beyond.



1.
Introduction and the context for our work

Our purpose since our creation in 1948 has essentially been constant: 'to do good without losing money'. But the way we invest has evolved significantly over 70 years to reflect shifting opportunities and needs. At no moment was this more true than in 2012, when we underwent a sharp refocus to invest in creating jobs across Africa and South Asia. We built on this further in our 2017 strategy **Investing to Transform Lives**, which aimed for even greater development impact.

We are proud of our recent achievements. These are set out in a detailed **companion document**, and since 2017 include:

- investing in companies that directly employ nearly one million people, and support a further 2.6 million employees in their supply chains
- helping create the 2X Challenge (an initiative by the G7 DFIs to support the economic empowerment of women), and making over £750 million in climate-finance commitments
- mobilising an additional $3.8 billion of private-sector investments alongside our own commitments
- establishing eight **Catalyst Strategies** to shape nascent markets and pioneer impact.

Our plans for the future are based on understanding the opportunities – and challenges – we see today as we invest in Africa and Asia. They are also based on an honest evaluation of our own strengths and weaknesses, including those made by independent evaluators of our recent performance. We explore these issues below and show how they underpin our 2022-26 strategy.

1.1 How we view the opportunities of Africa and Asia

Our view is that, to achieve the UN's 2030 Sustainable Development Goals (SDGs) and meet commitments under the Paris Agreement, three things need to happen. First, economies must become more productive, to provide decent jobs, raise living standards for all, and build back better from the COVID-19 pandemic. Second, economic activity must be transformed to become environmentally sustainable, create low-carbon growth pathways resilient to climate shocks, and protect biodiversity and natural capital. Third, economic growth must be inclusive and shared more evenly across society, including with marginalised groups.

Fortunately, in meeting these critical needs for Africa and Asia, there are opportunities as well as challenges:

- **Productive growth and job creation.** Half of the world's population lives in Africa and South Asia, is young and is increasing rapidly in number.[1] Labour productivity and capital intensity are low. So there is a huge opportunity for investment to combine with an entrepreneurial and talented population, in what will be the major markets of the future, to create growth and decent jobs. Digitalisation and automation should be used to create new and better jobs, not merely as substitutes for labour.[2] Productivity can improve in the informal sectors that dominate many economies, and especially in agriculture. Cities can be engines of growth, not sources of congestion.[3] Countries can be better integrated into the global trading economy.[4] Capital markets must widen access to affordable financial products for firms and households.[5]
- **Sustainable green growth.** The forecast impact of unabated climate change is daunting, with poorer regions of the world worst affected.[6] But there are also grounds for optimism. The countries of Africa and South Asia enjoy some of the world's most favourable conditions for renewable energy. Innovations in sustainable agriculture, forestry and land restoration could positively transform economies and landscapes. New green technologies, in areas such as cooling or transportation, promise to raise productivity and create private-sector demand. Bold climate action, which is needed to transition to net-zero economies by 2050, could also bring green growth and trillions of dollars of benefits.[7]
- **Inclusive growth.** Marginalised groups represent significant untapped potential. Women, for example, currently face numerous barriers to work, with participation rates for the female labour force in Africa and Southern Asia at around 60 per cent and 25 per cent respectively, compared to 70 per cent and 80 per cent for men. Even whole countries can be marginalised – through fragility and conflict – which is not just a human calamity, but an ongoing economic and security risk to whole regions. Yet even with intractable issues, new private business models emerge that can help, whether by employing marginalised groups or providing basic services in new and affordable ways.

These needs and opportunities are the context for our 2022-26 strategy. We say a lot more about the nature of global development needs, and how we believe development finance can help, in our technical companion paper: **The Economics of Development Finance**.

[1] World Population Prospects, United Nations Population Division
[2] IMF (2018). *The Future of Work in Sub-Saharan Africa.*
[3] Lall, S., Henderson, J., Venables, A. (2017) Africa's cities: opening doors to the world *World Bank.*
[4] Goldberg, P. & Reed, T. (2020). *Income Distribution, International Integration, and Sustained Poverty Reduction NBER.*
[5] Besley, T., Burchardi, K., & Ghatak, M. (2021). *The Role of Finance in the Process of Development: Improving Access versus Reducing Frictions.*
[6] Burke, M., Hsiang, S. M., & Miguel, E. (2015). *Global non-linear effect of temperature on economic production. Nature.*
[7] "Better Growth Better Climate" The New Climate Economy Report, The Global Comisssion on the Economy and Climate.

1.2 What we have learnt about ourselves

Over the last 70 years, and certainly the last ten, we have learnt a great deal about what does and does not work in development finance. Alongside our real achievements, investments can fail, market opportunities can be missed and operational upgrades can be delayed. We attempt to learn through our own internal review processes. We hold regular external discussions with our investees, governments across Africa and Asia, civil society organisations, UK Parliamentarians including via appearances at select committees, and of course our shareholder the FCDO. We also benefit from formal independent scrutiny of our performance, including a National Audit Office review in 2016 and an Independent Commission for Aid Impact (ICAI) review and two follow-ups between 2018 and 2021.

The lessons from our internal and external reviews have directly informed our 2022-26 strategy. Specifically, it is why we will:

- project our new brand more strongly as a major part of the UK's development offer, and build on the strengths of the UK's other development assets, through closer cooperation and coordination, particularly within markets
- have a sharp set of three strategic objectives (chapter 2), linked to our mission but mindful of the opportunities we see today in Africa and Asia
- have a clear route to making successful investments (chapter 3); starting with our sector focus, flexible capital toolkit, segmented approach to different countries, and partnerships with the best commercial operators and investors
- carefully strengthen our operations (chapter 4) – for example through greater in-market presence for investment origination and management, strengthened risk management and stronger data platforms and technology
- rebuild our impact scoring system (chapter 5), to directly connect with our strategic objectives and to capture the breadth of impact we now seek to have
- have a clear vision for where this strategy will take us by 2026 (chapter 6).

2. Our strategic objectives

We are setting three strategic objectives for the next five years, which build on the opportunities we see for investing in Africa, Asia and beyond. We will prioritise investments that support:

- **Productive development** – by raising the productivity of an economy so that it can support a decent standard of living for all;
- **Sustainable development** – helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate; and
- **Inclusive development** – sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.

We describe each objective separately, but recognise they are all interlinked and relevant to every investment. Only by pursuing them together can we achieve the long-term meaningful impact needed to contribute to the SDGs and the Paris Agreement.

2.1 Productive development

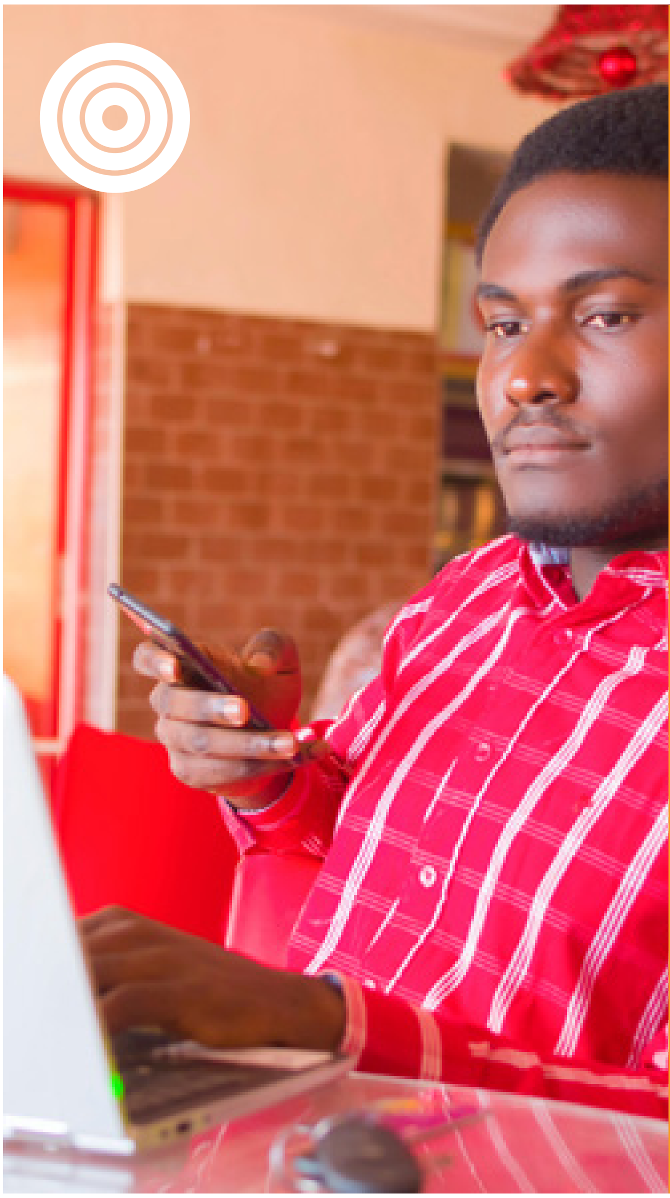
Our investments will contribute most to our **Productive** objective when they:

- **catalyse markets by changing the behaviour of other market actors.** We invest to set the forces of competition in motion, and to demonstrate success from innovative forms of investment, technologies and business models that others can replicate
- **enable positive spill-overs to other firms**. We look to make transformational investments that will result in many businesses across an economy investing and raising their productivity. These economic enablers supply businesses with what they need to grow. Examples include affordable and reliable power, more-efficient logistics, financial services on the right terms, and exporters that generate the foreign-exchange earnings economies need
- **address the biggest development needs**. We prioritise our activity in countries and sectors where the needs are greatest, and where we can most effectively create decent jobs and raise a country's capacity to improve people's standard of living
- **achieve impact most efficiently**. We allocate our capital to projects and enterprises that create the most impact per dollar invested

Productive investments in practice include:

- **connecting communities with digital infrastructure – Liquid Telecom**: Internet access helps businesses grow and strengthens local economies, but requires infrastructure in place.[8] Investments in such vital digital infrastructure have the potential to be truly transformational. Liquid built Africa's largest independent fibre network, approaching 100,000km, across 14 countries and it aims to connect millions more people and businesses. Our investment is accelerating Liquid's expansion along its Cape-to-Cairo route and further into central and western Africa, including to places that lack affordable and reliable broadband today, like the Democratic Republic of the Congo.
- **charting a stronger course for African trade – DP World**: Africa has a sixth of the world's population, but is home to only a handful of the world's top 100 ports (Asia has nine of the top ten) and accounts for just 4 per cent of global container shipping volumes. Over the past four years, we have developed a new long-term partnership with DP World, a leader in global supply-chain solutions, to help address the stark imbalance in global trade, accelerate Africa's potential as a global trading hub, and improve the economic prospects of millions of people. The partnership will support the modernisation and expansion of ports and inland logistics across Africa, starting in the ports and corridors of Dakar (Senegal), Sokhna (Egypt) and Berbera (Somaliland), with further ports and logistics investments to follow. We have initially committed $320 million to create the partnership, and expect to invest up to a further $400 million over the next several years alongside $1 billion from DP World.

[8] Hjort, J., & Poulsen, J. (2019). *The arrival of fast internet and employment in Africa*. American Economic Review.



2022-26 area for transformational impact: advancing digital solutions

From the countries where we invest, to our headquarters in London, digital technology is transforming both the way business is conducted and standards of living alike – and COVID-19 has accelerated this shift. Suitable and secure digital technology is essential to modern economies, and can provide countries with new paths to development by 'leapfrogging' obstacles that have limited their reach. While digital solutions can contribute everywhere, they are particularly aligned with our Productive objective, as innovations can spread across a market and facilitate impact at scale, in a cost-effective way.

Over the last five years, we have tested the market to build our understanding of where our investments in digital technology can maximise development impact. Our investments in digital technology include: financing large-scale telecoms to revolutionise access to affordable internet; investing in 'digitally-enabled' businesses with the potential to support jobs and improve access to goods and services; and providing seed funding to early-stage disruptive businesses using technology to tackle development challenges.

In our 2022-26 strategy period, we will **develop and implement a more-comprehensive approach to digital technology** that includes:

- refining our approach to investing in digital transformation, recognising the breadth of businesses this might cover, that range from mature digital infrastructure providers to the most disruptive tech start-ups
- identifying ways to use suitable and secure digital technology to deliver, monitor, and analyse our impact
- strategically introducing digital solutions to our internal operations, to meet our 2022-26 objectives and become a more agile and efficient workplace

2.2 Sustainable development

Our investments will contribute most to our **Sustainable** objective when they:

- **mitigate climate change** by avoiding, reducing, or sequestering greenhouse-gas emissions. We will look for investments that support the transformation required for 1.5-degree-aligned pathways to net-zero economies by 2050 by either investing in activities that are already low carbon or which indirectly enable emissions reductions in other activities. This includes areas such as renewable energy, electric vehicles and green hydrogen for industrial use, and investments in carbon removal, such as forestry.
- **increase resilience and adaptive capacity** in businesses, people and nature. Our approach to this challenge will work on two levels. We aim to increase our investment in solutions that support adaptation and resilience of sectors, businesses, communities and people, such as investing in companies that offer data and analytics to enable climate-informed decisions. Alongside this, we work with our portfolio companies to change their processes, practices, and structures to avoid damage from acute or chronic physical climate risks. This could mean helping our investees protect themselves from extreme flooding, or making investments that increase resource efficiency, such as solar-powered irrigation. Wherever possible, we will promote nature-based solutions for resilient infrastructure and land use.
- **support the circular economy**, by reducing the environmental footprint of economic activity. This includes keeping materials in cycle for longer, managing waste sustainably, and promoting regenerative practices that can protect and restore nature.

Sustainable investments in practice include:

- **future-proofing business in a changing climate – Zephyr Power:** In 2017 we invested in Zephyr Power, a 50MW wind-power project in the Sindh province of Pakistan. The wind farm, which became operational in 2019, is built on wetland in a tidal and coastal location. As well as addressing climate change by developing clean power that reduces reliance on more-polluting and non-renewable sources, we are also supporting the company in making the wind farm more resilient to the physical effects of climate change, using nature-based solutions. The site's wetland had become degraded due to human intervention such as cutting mangroves for firewood, fishing, crabbing and camel grazing. We worked with Zephyr Power to implement a protection and rehabilitation programme for the mangroves, which will not only improve the site's ecological value, but also provide protection from the effects of climate change and bring broader benefits for the local community.
- **the technology that's powering farmers' productivity and sustainability – CropIn**: Low yields, inefficient practices, and post-harvest losses are common in small-scale farming in India. 50 per cent of farmers each own less than two hectares of land, and 90 per cent of them earn on average less than $2 a day. To improve their livelihoods, these farmers need to maximise the value they get from their land and, in doing so, ensure food security and sustainable farming practices. That's where data and technology comes in. CropIn is a software specialist for agribusiness, aiming to optimise agricultural practices, improve farmers' access to finance, and minimise waste – all helping reduce impact on the environment and increase food security. It 'digitises' the farm-management process using technology such as satellite images and artificial intelligence, to monitor crop health remotely, make yield predictions, enable precision agricultural techniques and monitor changing weather patterns. These insights are passed on to farmers, insurers and credit providers to inform their decision-making.
- **protecting marginalised workers and reducing waste in landfill – Nepra Resource Management**: India faces environmental challenges as a result of waste generation and waste collection. The country generates around 62 million tonnes of waste every year. Of this, around 80 per cent ends up in landfill, with only 20 per cent being treated. Nepra Resource Management is an Ahmedabad-based waste-management company that operates a dry-waste supply chain by connecting informal waste pickers, corporations, industrial sites and retail bins to recyclers. On average, the company processes 500 tonnes of waste a day, preventing it from going into landfill, and has diverted over 500,000 tonnes of CO_2 emissions. We are invested in Nepra through our commitment to the Aavishkaar Emerging India Fund, which provides early-stage and expansion capital, particularly for firms that solve problems for low-income populations in India.

2022-26 area for transformational impact: our commitment to climate finance

Climate finance is an essential tool in addressing climate change, and it is estimated that an annual investment of $1 trillion in the energy sector alone is needed by 2030 to help emerging and developing economies achieve net zero by 2050.[9] Following COP26 in Glasgow, development finance actors and the private sector will need to work together on the systemic changes needed for the net-zero and climate-resilient transition of the countries where we invest. Innovative use of financial products, concessional resources and technical assistance are key to mobilising private investment for just and clean energy transitions, decarbonisation across all sectors, and the collaboration needed to accelerate private-sector solutions for adaptation and climate resilience.

In the 2017-21 strategy period, we significantly raised our climate-finance ambition, and published our **Climate Change Strategy**. We have aligned our organisation and investments to the goals of the Paris Agreement to ensure we are: on a clear pathway to net-zero emissions by 2050, contributing towards a just transition for workers and communities, and investing in resilience and the business solutions needed for climate adaptation. We have also committed to finance in line with a global 1.5˚C carbon budget, and to adopt international standards of best practice, including the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Our investments have supported early-stage climate-tech solutions and the emergence of new green financial products through increased green-directed lending and green bond issuance. We provide value beyond capital, for example by helping our investees manage climate-related physical and transition risks, or pursue new climate-related business opportunities. Finally, we have built strong partnerships with others in development finance, to ensure our investments contribute towards the systemic changes needed, for example, through the **Adaptation and Resilience Investors Collaborative**.

Over the next five years **we will further strengthen our commitment to climate finance by:**

- setting a target of 30 per cent of our new commitments qualifying as climate finance on a rolling average, which we expect to total over £3 billion
- applying a portfolio-wide carbon budget for this five-year strategy period, that will inform how we construct our portfolio
- expanding our climate-finance activities to Indo-Pacific countries, to support green, resilient growth in the region. We can also now invest in select climate solutions through specialised multi-region funds, extending to all ODA-eligible countries
- looking closely at the high-quality sustainability disclosure standards, as they emerge from the new International Sustainability Standards Board (ISSB), and as they are appropriate for use in countries where we invest
- continuing to pursue the activities and objectives set out in our 2020 Climate Change Strategy

[9] IEA (2021) Financing clean energy transitions in emerging and developing economies

2.3 Inclusive development

Our investments will contribute most to our **Inclusive** objective when they:

- **promote gender equality and diversity.** The 2X Challenge has an ambitious objective of deploying and mobilising capital to support projects that empower women and enhance their economic participation. We use the 2X criteria to determine which investments will improve women's participation as workers, consumers, entrepreneurs and leaders. We are also committed to promoting and increasing representation of black African-owned and led businesses in our sub-Saharan Africa portfolio.
- **are in low-income and fragile countries**. While many of the countries in Africa and Asia are low-income, fragile or both, we will assign a higher priority to investments in the poorer and more-fragile countries. Investments that help initiate the process of economic modernisation in stagnant economies have the potential to make a huge difference to living standards over the long term.
- **have a positive impact on low-income populations**. We prioritise investments that create better jobs and livelihoods for people living in poverty, and which supply goods and services that meet their needs. In doing this, we will consider the proportion of workers, suppliers and customers that live below the $5.50 per day purchasing-power-parity poverty line.

Inclusive investments in practice include:

- **providing affordable off-grid solar power to low-income customers – Greenlight Planet:** By the end of 2020, 11.2 million people were benefitting from Greenlight Planet's solar home systems on a pay-as-you-go basis across Kenya, Tanzania, Uganda and Nigeria. Of these, 80 per cent are rural and peri-urban customers and almost 80 per cent of the company's Kenyan customers are from lower-income households. We first invested in the business in 2020 to support the expansion of their activities in Kenya, Uganda and Tanzania. In 2021, we focused our investment to scale their operations in Kenya through a local currency loan with other partners. We are helping the company improve access to clean and affordable energy and financial services for primarily low-income and rural customers.
- **building an inclusive workforce trained in tomorrow's technology** – **iMerit**: iMerit is a data-labelling services company which brings people from diverse and marginalised backgrounds into the digital workforce, in a region and sector where female workforce participation is low. The company employs 5,000 workers in India and Bhutan, over 50 per cent of whom are women and 80 per cent are from under-resourced communities. Our investment supported the expansion of iMerit's business, creating jobs and supporting consistent wage increases for workers, including by accelerating their promotion into leadership positions. The growth strategy of its female founder was to provide skilled employment opportunities for women, and consequently the investment qualifies as a gender-smart business under the 2X Challenge framework.

2022-26 area for transformational impact: pursuing gender and diversity-lens investing

Data shows that supporting gender balance and broader diversity – particularly in the leadership ranks across the private sector – can bring about systemic change and better decision-making in both commercial and impact performance.[10] Yet female labour-force participation rates in Africa and Southern Asia stand at around 60 per cent and 25 per cent respectively, versus 70 per cent and 80 per cent for men.[11] Even when women do work, men earn roughly 20 per cent more in essentially all societies.[12] Removing the multiple barriers that women face brings huge economic potential for individuals, for communities, and for whole economies. Addressing significant imbalances in access to capital is important for driving greater equity and inclusion in areas such as gender and race.

Over the past five years, we have helped to set-up the 2X Challenge and the 2X Collaborative to promote gender-lens investing. We proactively assess gender-based risks and opportunities in our investments and will incorporate these in our investment strategies. By doing so, we can help our investee companies take advantage of 'gender-smart opportunities' to add value to their business. We also share the lessons we have learnt, and good practices more broadly, via the fund managers and companies we invest in, as well as other external audiences, to encourage more gender-smart investing. This includes developing resources and tools, like our Gender Toolkit and our Fund Manager's Guide to Gender-Smart Investing, to support inclusive investing across a growing group of investors.

In our 2022-26 strategy period, we will **pursue a gender and diversity finance agenda that includes:**

- making gender-lens investing mainstream in our investment decision-making by incorporating 2X criteria into our impact score for all our investments
- setting a 25 per cent target for new commitments to be 2X qualified, on a rolling-average basis
- promoting black African representation in our sub-Saharan Africa portfolio by designing and implementing an investment framework (including indicators) to enhance support of black African-owned and led businesses
- testing and designing new inclusive finance frameworks to consider other diversity dimensions in our investment decision-making, and to provide advisory support to our investee partners to promote diversity and inclusion across their corporate value chains, such as our guidance note on disability inclusion

[10] Di Miceli, A., & Donaggio, A. (2018). Women in Business Leadership Boost ESG Performance: Existing Body of Evidence Makes Compelling Case. *IFC*. More evidence for gender and diversity performance dividends is available on the GenderSmart Investing website.
[11] International Labour Organization, ILOSTAT database.
[12] ILO (2018). Global Wage Report 2018-2019: What lies behind gender pay gaps

Job creation and the Productive, Inclusive, Sustainable strategic objectives

Job creation is central to each one of our new strategic objectives. Under our Productive objective, we will look at the scale of job creation and how we can improve the quality of jobs and livelihoods. Under Sustainable, we will consider the resilience of employment and the just transition to a clean, green economy. Under Inclusive, we will look at the characteristics of who is being employed. The creation of better jobs, so people can move from low-paid and precarious employment into more-secure and more-rewarding jobs, remains critical to development.

3. Our approach to making successful investments

We will start the 2022-26 period with an investment portfolio of nearly £6 billion, and we plan to make around £9 billion of new investments over the next five years. So that each existing and new investment has the best chance of contributing to our three strategic objectives, we will:

- be **sector-led**, specialised in the economic sectors we invest in, continually updating our expertise in how these sectors contribute to the fabric of the economies we support
- deploy a broad range of **investment and capital tools**, so we can fully respond to the needs of different businesses and projects
- take a **targeted approach towards different countries**, to reflect diverse and different needs, and those which require different investment approaches
- **work with the best, and mobilise commercial investors**, including working with other world-class financial or operational companies who share our objectives, as well as working closely with the UK Government, and the wider development finance community
- **be world class in impact management and responsible investment**
- look to add new capabilities across advisory, grant, and blended-capital tools that would **broaden our offer for private-sector development and mobilisation**

3.1 Being sector-led

A focus on, and expertise in, key economic sectors is central to our approach to making successful investments. It helps us better understand the markets we invest in, who the best partners are to work with, the opportunities and risks investees face, and how best to support them. During the 2017-21 period, we did substantive work developing sector-focused strategies to better achieve impact at a sector level. Late in 2020, in preparation for our 2022-26 strategy, we reorganised our investment teams to focus on the three sector groups as follows:

- **Infrastructure and Climate Change:** covering infrastructure in its broadest sense, including clean power and energy systems, sustainable transport and logistics, climate-resilient urban infrastructure and utilities. Many of these infrastructure sectors have a vital role to play in mitigating climate change and building resilience and adaptation to it
- **SMART Industries:** covering business and consumer services (including health, education and training); manufacturing; agriculture; real estate and construction; and technology and telecommunications
- **Financial Services:** covering both investments in financial institutions to bring financial services to the underserved, and through financial institutions, where we can channel liquidity into targeted economies, sectors or to achieve specific impact objectives

Infrastructure and Climate Change

Much of the infrastructure in advanced economies has originated from the public sector. In parts of Africa and Asia, governments are constrained by limited borrowing capacity and relatively low tax revenues, much of which is needed for other commitments, such as healthcare and education. This means privately owned and operated infrastructure has a vital role. But developing such projects is hard – while there is a large number of potential opportunities, far fewer develop into bankable projects that meet the risk-return expectations of private-sector investors. Even then, some private investors are deterred by the perceived risk of investing in infrastructure in frontier markets.

Our long-term perspective and developmental mission gives us a different position to many other investors, particularly in infrastructure project development. We can provide patient capital in the form of equity to platform companies, such as Globeleq and Gridworks, who operate in the energy sector, or to other developers through both direct equity and fund investments. Those third parties can then build teams with the capabilities and financial resources needed to progress opportunities through the development life cycle. This process can take more than five years, and only a few concepts ever reach the construction stage. Our risk tolerance also allows us to provide developers with long-term debt financing, which is in short supply in all countries we invest in, from the poorest and most fragile, to mature economies such as India. Over 2022-26 we plan to:

- **generate renewable power on grid via solar, wind, geo-thermal, hydrogen**. Our utility-scale power investments will increase the supply of reliable electricity to firms and households, and will be a critical driver of economic productivity and quality of life for consumers. We also see more opportunities in green commercial and industrial power and heat. Such investments will avoid or reduce greenhouse-gas emissions by displacing thermal power.

- **support networks for transmitting and distributing electricity**. Power generation is only as good as the networks that transmit and distribute power to consumers and business users. Poor networks lead to inefficient and unreliable distribution, and can drive up costs. We have created Gridworks to help improve the access and reliability of power networks in Africa.

- **provide decentralised solutions for households and businesses to generate power using renewable sources** (Energy Access). In certain cases, it is not feasible to expand the grid to reach all people and businesses, particularly those outside of major urban areas. Our investments in solar home systems and mini-grids increase the supply of reliable electricity and appliances both to households and small businesses. They also avoid or reduce greenhouse-gas emissions by displacing kerosene or diesel generators.

- **grow our ports, transport and logistics investments**. These sectors enable more-efficient and greater flow of goods and materials through the economy, thereby improving: competitiveness of exported goods; productivity for firms relying on imported inputs; and broader supply chains for the benefit of businesses and households. They lead to GDP growth, job creation, and improved quality of life and affordability of goods for consumers.

- **provide access to water, sanitation and hygiene**. Investments we make in these sectors improve access to safe and affordable drinking water, and reduce deaths and illnesses attributed to water-borne diseases. This can help provide greater resilience to the current and predicted impacts of climate change, and preserve the depletion of groundwater. It can also demonstrate a viable commercial model for water provision in Africa.

- **provide access to urban infrastructure and climate technology**. Investments in urban mobility can be a major benefit to low-income groups and can be designed to incorporate a gender lens. These and other investments can reduce the environmental impact of cities and help them adapt and become more resilient to the impacts of climate change. There are growing opportunities in climate-related technology, including electric-vehicle infrastructure, hydrogen and storage. In the long-run, an appropriate low-carbon energy mix might include small modular nuclear reactors, so we will explore whether these technologies might be relevant to countries where we invest within the next five years.

SMART Industries

The sectors within SMART industries represent the lifeblood of any modern economy. Together, they can be powerful job creators, are critical for improving access to basic goods and services, can connect economies with international markets, and have the potential to grow through digital transformation. Yet in many of the countries we serve, private-sector investors are not yet building these businesses in a way that fully meets the needs of local economies and communities. Over the next five years, we will particularly aim to:

- **improve manufacturing and production potential**. Local manufacturing capability is significantly underdeveloped in many of the countries where we invest, which stifles the pace of broader economic development and transformation. We will prioritise the following sub-sectors: personal-healthcare products, building materials, chemicals, packaging, textiles, light engineering, manufacturing services and green-manufacturing opportunities. We expect investable opportunities to be clustered in major urban conurbations because manufacturing ecosystems need to develop around geographic hubs to optimise the use of shared services and infrastructure.

- **increase connectivity and productivity through ICT** (information, communications and technology). Access to affordable ICT, including internet and cloud services, is essential for a modern productive economy and good social outcomes. We will focus on core communications infrastructure such as telecommunication-tower companies, companies providing fibre-optic cabling, data centres, mobile-network operators and IT services. Building this backbone is a critical enabler for the provision of innovative technology companies or services in healthcare, education, agriculture and financial sectors, and we will look to grow such businesses through our venture programme.
- **support food security and conservation**. The largest employer in many of the countries we invest in is the agriculture sector. Through targeted investments, we can address the broader issues of food security, affordability, sustainability, and livelihoods. Our focus will be to invest in integrated agricultural value chains, with a central food-processing component and upstream links to smallholder farmers and out-grower schemes. We will target sub-sectors including animal protein (dairy, poultry, aquaculture), agricultural inputs (agrichemicals, seeds, farm mechanisation, and micro-irrigation), high-value crops and forestry. Forestry investment offers a unique opportunity to tackle and mitigate the climate crisis and is also a key area of focus.
- **enable sustainable urbanisation and logistics through construction and real estate** (CRE). Urbanisation and population growth are creating significant demand in the CRE market. COVID-19 has further exacerbated supply and demand inequalities in a number of areas, such as affordable housing and student housing. Industrial real estate is a particular opportunity, showing strong resilience during the COVID-19 pandemic and being a major beneficiary of evolving global structural trends (such as supply-chain reconfiguration and technology disruption). The challenge of climate change is also a key theme in CRE, and we will look to find opportunities to use our capital to encourage the shift towards sustainability and green buildings.
- **provide education for employment and skills development**. There is a lack of access to quality education in the countries where we invest, spanning pre-school to tertiary education. The problem is compounded by a near doubling of the school-age population, leading to a learning crisis, with extremely poor education outcomes, skills shortages and, consequently, youth unemployment. We will focus our investment activity on higher education, technical education, and education technology companies. We will not prioritise new investments in K-12 (kindergarten to twelfth grade) private education.
- **invest in healthcare solutions across health ecosystems**. Few governments in the countries where we invest are currently able to provide essential, good-quality services to their citizens. This patchy public healthcare infrastructure, along with a lack of investment, means a sizeable proportion of the population in Africa and South Asia is predominantly reliant on private healthcare. We will focus on investing in private-healthcare providers that have a positive impact on the overall healthcare system, particularly with regard to access and affordability. Importantly, we will not support activities that undermine public facilities. To that end, we will prioritise investing in the following areas: the manufacturing of medicine, vaccines, devices and equipment; pharmacy and retail logistics; treatment and delivery; early-stage funding for research and development and health-technology companies; and, market-shaping interventions combining the public and private sector. Any investment we make in a hospital will ensure the hospital supports a significant proportion of users who are on government payment schemes or on low incomes.
- **develop diverse business services for job creation and consumers**. We will do this in four sub-sectors: labour-intensive; professional services; technology-focused; and asset-focused. Business services are important sectors, as countries diversify away from more traditional sectors, and individual sub-sectors can be strong job creators, as well as bringing higher-quality or cheaper services and products for consumers. Examples of potential investment opportunities include contact centres, facilities management, HR services, coordination, supply-chain management and IT services. We will invest in these while recognising the explicit tension that exists between process automation and potential job destruction.
- **support consumer services in improving access to, and growing, regional brands**. Investing in social commerce can provide opportunities for achieving high-impact outcomes by creating jobs and bringing higher-quality or cheaper services and products for consumers. Potential investment opportunities include food retail, food and beverages, household and personal care, and e-commerce.

Financial Services

A well-functioning financial system is vital for any economy. Financial institutions, through the services they offer, facilitate payments, provide savers with somewhere safe to keep their money, and direct capital to the individuals and enterprises that need it. Yet in developing countries, financial-system weaknesses often lead to particular parts of the population being excluded or marginalised from services, such as small-business owners, or women. Products can be expensive, and many financial institutions do not have the resources or expertise to fulfil their objectives. Investments in financial services are also particularly important for countries to navigate and recover from the COVID-19 pandemic, since liquidity constraints have disproportionately affected lending to low-income populations and SMEs. DFIs have always played a critical role in supporting financial systems – in our case since 1949.

A key shift in our approach to investing in financial services for 2022-26 is to move away from providing general support – whether capital support through equity or liquidity support through debt – to large banks. Instead, we will primarily work with local financial institutions to support specific customer groups and to achieve particular impact objectives, while at the same time broadening our origination efforts with specialised lenders. So when we invest in financial institutions (directly through debt, tier-2 debt and equity, and indirectly through funds), we want to bring about structural improvements that will bring affordable financial services to those groups who currently have inadequate services. And when we invest through financial institutions (through directed lending, trade and supply-chain finance and risk-sharing facilities), we will channel liquidity to support our impact objectives in gender, climate, inclusion and for SMEs. We will also play an important role in catalysing the **digital transformation of financial services** in the countries where we invest. Our priorities for 2022-26 are to:

- **support specialised financial-service products that deliver basic needs**. We aim to invest in specialised lenders and insurers that meet the basic needs of people, and also empower banks and other traditional lenders to lend to basic-needs-related segments of the economy. This includes affordable-housing finance, agrifinance, education finance and health insurance.
- **use the transformative power of secure, resilient and suitable digital financial services**. Financial technology, or FinTech, has the power to reduce operating and risk costs in the financial system, while also improving inclusivity by reaching a far wider range of customers than could be achieved through physical financial services. The success of technology is reliant on it being secure in combatting cyber-crime and protecting data. We will invest equity in business models that improve digital financial inclusion in a responsible manner. We will also leverage digital lending platforms to deliver funding to underserved segments. Finally, we will help our traditional financial-services investees in their digital transformation efforts by providing advice and technical assistance.
- **work with financial intermediaries to reach SMEs**. SMEs are growth engines in any economy and we plan to support SME-lending though a variety of products including: investing in SME-focused lenders such as SME FinTechs and other non-bank financial institutions; sharing risk with partner financial institutions to support growth of their SME lending in underserved markets; investing in credit funds targeting SME lending; and supporting local-currency lending to SMEs. We also aim to support supply-chain finance programmes that specifically target SMEs.
- **develop domestic capital markets to unlock more funding**. Capital markets in our partner countries are key to unlocking longer-term and sizeable funding. Our investments can broaden and deepen the institutional investor base, with a particular focus on pension providers and insurance companies. These institutions mobilise domestic pools of longer-term capital through the various products they offer, such as pensions and annuities. We will support the development of market infrastructure by investing in entities such as exchanges, central clearing platforms, custodians and credit data, where opportunities present themselves.
- **boost climate finance**. Financing the climate transition, to meet Paris Agreement commitments, reducing climate emissions and strengthening climate-change adaptation requires appropriate capital. We propose to help with a range of green finance solutions. We will support the introduction of adapted green-lending products for consumers and businesses, by using our directed lending and risk-sharing facilities. This may also include participating in green-bond issuances, backing specialised lenders to climate-positive borrowers, and deepening the climate and disaster-risk-management sectors by backing insurance and asset management.
- **support gender and diversity finance**. We aim to address the fact that women continue to be disproportionately excluded from the financial-services sector, both in leadership and as customers. We therefore plan to focus on making investments that meet the 2X criteria, and provide technical assistance and in-house advisory services to our clients to help improve inclusion. We will also work with financial intermediaries to increase access for female customers – through risk-sharing facilities, trade and other structured-credit products, or directly with financial institutions through equity and directed lending to support women.

3.2 Using a flexible capital toolkit, and growing our Catalyst portfolio

For economies to flourish and support their citizens, businesses need access to finance in a wide range of formats – including equity, debt, structured instruments and guarantees. We are very fortunate to have a substantial risk appetite and considerable flexibility in how we can provide capital. We are able to hold a high proportion of our investment portfolio in equity instruments (and therefore tolerate significant exposure to local-currency risk) as well as develop our higher-risk Catalyst portfolio. This risk appetite and flexibility is due to a unique combination of governance (as an independent public limited company with a single shareholder), capital structure (a balance sheet entirely financed by share subscriptions) and regulatory status (with appropriate Financial Conduct Authority permissions as befits a propriety investor, but not regulated as a bank nor with an external credit rating to maintain, as is the case with some other development finance institutions).

Investing across equity and debt instruments, and through direct and indirect channels

Although we are known for being an equity investor, we invest across the capital spectrum. We do this through a wide range of investment instruments that spans the provision of equity via ordinary shares, to lending senior debt, with the ability to consider various options in between. We will continue to use this wide range of instruments over the next five years.

When we invest directly, we prefer to invest in private companies using equity and corporate debt products. Equity positions allow us to influence corporate governance and business practices, to raise standards in the companies we invest in. We will continue to make longer-term investments, backed by strong exit rights, and with a preference for downside protection. We will typically take minority equity positions, and take positions of control only selectively, and almost always with a significant and experienced partner who brings complementary capabilities. We have the appetite to make large single investments if the scale of impact is also large – over the past five years we have played a significant role in capitalising major projects, and companies such as the Benban Solar Park near Aswan, Egypt, which is the largest solar park in Africa. Since 2017, we have been executing a venture-capital strategy to invest in high-risk, early-stage approaches, for which we rely more on investment-fund managers for day-to-day portfolio management. We will also work with selected investment-fund managers to become a co-investment partner, to directly support the growth of some of the companies where we already have an indirect interest.

We also invest using a wide range of intermediary channels such as banks, non-bank financial institutions, permanent capital vehicles and funds, including venture capital funds, credit funds and private equity funds. Working through intermediaries allows us to access specialist expertise and 'asset-gathering' capabilities that enable our capital to reach more-difficult countries and benefit specific groups such as green companies or women-led businesses. It also allows our own capital to be broken up to reach smaller companies and, in the case of our supply-chain finance product, facilitate very small amounts of working capital.

Using our flexible toolkit to respond to COVID-19

The COVID-19 pandemic dominated the final two years of our 2017-21 strategy period. At a time when capital retreated from Africa and South Asia, our flexible toolkit enabled us to provide much-needed, impact-driven, targeted capital and liquidity to our partners on the ground. We concentrated our response on three pillars:

1. **Preserve – helping our partners safeguard impact and weather the crisis**: At the time of the crisis, we had direct and indirect investments in almost 1,200 companies in South Asia and Africa, employing over 950,000 people. Our first priority was to support our current investee businesses affected by the crisis, whether through providing finance or advice.
2. **Strengthen – helping businesses respond to economic and health challenges**: Beyond helping our current investees, we also focused on extending our support. That included working with local banks and other financial institutions to provide the working capital businesses need. It also included making investments that would increase access to healthcare and basic services.
3. **Rebuild – a long-term partner to the countries where we invest**: We know that finance and support from institutions like ours will be critical to the process of rebuilding from COVID-19, including economic, social and environmental recovery. Our aim is to support the countries where we invest, beyond the pandemic, through to recovery and prosperity, by providing much needed counter-cyclical funding and being one of the first investors to re-enter the market.

In addition to providing systemic liquidity at scale with known partners, we were bold in trying new innovative financing structures – for which we were subsequently recognised with the UN PRI's 'Real-world Impact Initiative of the Year award'. Examples include:

- Master Risk Participation Agreements with partner banks to incentivise lending to fragile markets and sectors involved with the COVID-19 response
- a pooled bond issuance with Northern Arc, targeting primarily women and rural customers
- a tailored relief fund to support SMEs, in partnership with BlueOrchard
- a local currency solution for Bangladesh
- forming a coalition to provide relief to the off-grid energy sector
- providing £5.3 million of technical-assistance funding to 65 projects through CDC Plus

We have also attempted to factor the emerging effects of COVID-19 into our understanding of the context for our work and the role for development finance.

Using our Catalyst and Growth portfolios, and other tools, to address different points on the impact, risk and return spectrum

In 2017, we established a second portfolio (Catalyst) to sit alongside our main portfolio (Growth). They have slightly different risk-return and impact appetites:

- The **Growth** portfolio is investment capital used to accelerate private-sector development at scale. It is the heart of our investment activity and, in 2021, represented approximately 90 per cent of our total investment portfolio by value.
- The **Catalyst** portfolio takes on even higher risk in exchange for pioneering enhanced development impact. The impact and risk appetite for the Catalyst portfolio is part of our distinctive offer within the development finance community.

Developing the Catalyst portfolio

Catalyst was first piloted during 2013-2014, and is the first example in our nearly 75 year history of targeting specific impact objectives by using a dedicated pool of capital with a differentiated risk-return profile.

A key focus of our 2017-21 strategy period was the building of our Catalyst portfolio. Catalyst's impact goals were refined as shaping nascent markets and building more sustainable and inclusive economies. This led to an approach where we would devise specific investment approaches to address highly specific and difficult economic development goals; for example, could we devise an investment strategy that helps solve the market problem of limited access to affordable medicines and medical devices in Africa and South Asia? Our answer in that case was to set up MedAccess, a social-finance company that provides guarantees to transform market access. Taking a flexible approach to risk was vital, given the few precedents or benchmarks in the markets where Catalyst invests.

Since 2017, Catalyst has expanded to eight strategies with around £750 million committed. In 2020, investments made as part of these strategies reached more than 40 million people. Generalist Catalyst strategies do not focus on any particular sector, and are used to test new paths to achieving impact through individual direct or intermediated investments. An example of a generalist strategy is our Venture Capital Scale Up programme, which bridges the funding gap for early-stage technology and innovative businesses to test promising models for transformational impact, and in doing so develops the venture ecosystems in Africa and South Asia. Thematic Catalyst strategies are sector-specific, and are intended to close gaps in value chains, financing, inclusion and sustainability. They are targeted at areas where it appears that the market could work if only supported in the right way, such as healthcare, energy, climate and primary agriculture, and include MedAccess and Gridworks. In the coming five years, we will look to grow three new strategies – forestry, high-value crops (which both may involve platform investments, see below) and 'Greenovate' project finance – alongside supporting the most cutting-edge, innovative solutions to the climate, gender and digital transformations as part of our wider strategy.

We plan to grow the Catalyst portfolio over the next five years, so that it represents 10-15 per cent of our total portfolio by value, by 2026. We originally set our loss tolerance for Catalyst at 50 per cent in 2017. Now, with five years of experience and performance, we are setting our future loss tolerance at 30 per cent. This still gives the right risk appetite to test new models and approaches, while recognising that we can only achieve high impact in the private sector when companies, and investments, perform successfully.

We will add a £200 million Climate Innovation Facility to our flexible capital toolkit, as announced at COP26 in Glasgow. This facility is a pool of concessional finance that can blend with our Catalyst investments to support the growth of technologies to help communities deal with the impacts of climate change, such as drought-resistant agriculture and sustainable forestry, in markets where private investors have been reluctant to take on the risk alone.

Investing in 'platform' companies

Our unique equity focus, experience of managing direct and indirect investments, ability to invest large sums and sub-portfolios of differing risk, return or impact, can combine into another powerful attribute – the ability to create and invest in platform companies. Platform companies are majority-owned subsidiary companies of ours, often incubated by us, but that can grow into investment vehicles in their own right. This provides the potential to mobilise significant amounts of capital from other sources. We can also concentrate the scarce project-development capabilities needed to grow a pipeline of viable investments into a single company.

We have expanded or built a number of major platform investments over the past ten years, including several focused on power generation and distribution, where it is notoriously difficult to execute projects from inception through to operation:

- **Globeleq** is one of Africa's largest independent power producers. Over the past five years it has nearly doubled its amount of power in generation or under construction. Within this, its renewables footprint has increased by nearly 300MW including the first utility-scale greenfield solar project to reach financial close in Kenya, and one of the first grid-connected projects (based in Mozambique) featuring renewables plus battery storage to reach financial close in sub-Saharan Africa.
- **MedAccess** aims to increase patient access to life-changing medical supplies. It does this by offering volume guarantees, to reduce commercial risk and allow medical manufacturers to accelerate supplies to countries at affordable and sustainable prices. It is a UK-based social-finance company founded by us.
- **Ayana Power**. In 2017, we created a new renewables-development company focused on the poorer states of India. We appointed a management team, set up an independent board, and injected $100 million of equity. By 2021, Ayana had 1140MW of renewable power under development. It has also received $170 million further equity investment from India's National Infrastructure Investment Fund (NIIF) and Lightsource BP. Ayana is now targeting an additional 1.25-1.5GW of new capacity a year, and is looking at solar-wind hybrid projects including energy-storage technologies. This platform is part of our Growth portfolio, because the regulatory and power-development environment is relatively more established.
- **Gridworks** is a Catalyst platform we set up and own 100 per cent, to address the market gap in transmission, distribution and distributed renewable energy infrastructure in Africa. Since inception in 2019, Gridworks has invested in and grown Sustainable Power Solutions, a distributed renewable energy company that provides clean solar-energy solutions to business customers across sub-Saharan Africa; and established Moyi Power, which is developing, building and owning solar-powered utilities in three cities in the north of the Democratic Republic of the Congo (DRC), serving a population of over 600,000.

The intensity of time needed by investment and management teams in creating a platform is considerable – and a successful outcome is not guaranteed, which means we are highly selective about adding further platforms to our portfolio. For 2022-26, we are currently exploring the potential for platforms to invest in sustainable forestry to meet Africa's timber needs responsibly, while also addressing the climate emergency, and in the high-value crops sector, which can connect remote and often low-income communities in some of the least-developed countries to global supply chains, as employees and producers.

Investing in local currency

Most of our investees sell products and services to local consumers who pay using local currency. This is very true of corporates (outside of export-focused industries), but also for infrastructure projects where supply tariffs are denominated in the local currency. For most companies and public off-takers, raising capital in hard currency creates a currency risk they are not well placed to manage. Development finance institutions like ours can help. We do this most obviously through our equity portfolio, which is around 70 per cent of our total portfolio and is substantially denominated in local currency. We can also help by providing debt financing in local currency, and over the next five years will do so using some, or all, of the following routes:

- providing project finance in local currency in India and South Africa. This will account for over 20 per cent of the debt we will provide 2022-26, and will be hedged
- taking unhedged local-currency risk within our overall currency-risk limits. For example, we provide debt financing to energy-access companies in local currencies for which it is expensive, or impossible, to purchase currency hedges of suitable duration. We use our Catalyst portfolio to take this kind of risk on the premise that it helps build a market for lending in local currency
- investing in or through financial institutions. By providing core capital or risk-sharing facilities and guarantees, we can give financial institutions more headroom to grow their local currency loan books within their established risk parameters
- investigating currency swaps with selected central banks in countries (other than India and South Africa) and lending on the local currency proceeds to corporates

Deploying technical assistance

In 2018, with the FCDO (then DFID), we launched a technical assistance and support facility called CDC Plus. Since conception, CDC Plus has funded 258 projects, and 110 businesses within our portfolio have benefited from its support. 90 per cent of completed projects achieved their outputs and over 60 per cent of those that had completed had already achieved their outcomes, too. Our technical assistance has affected 10 million people in our markets, and more than 8,500 businesses. In 2020, CDC Plus rapidly set-up two COVID-19-response facilities (the Emergency Technical Aassistance Facility and the Business Response Facility), which supported 65 projects. The two facilities enabled businesses to access vital support services to ensure business continuity, safety of workers and customers, and proper treatment of staff. They also enabled companies to implement improved systems, develop new products, services or strategies, and test new initiatives, to respond to the pandemic.

We will continue with our technical assistance programme in 2022 and 2023, particularly to support our portfolio companies. We intend to continue the programme from 2024, although to do so we will need to identify a suitable external source of grant financing.

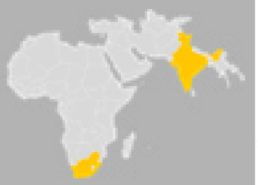
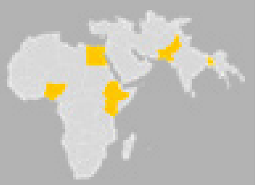
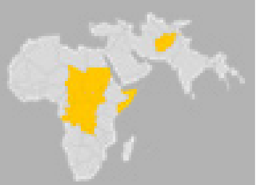
3.3 Differentiating across countries, and expanding climate finance in the Indo-Pacific

The countries we invest in each have unique opportunities and needs, and range from very poor, conflict or post-conflict countries with populations of a few million people, to India, which will shortly become the most populous country in the world, and has a GDP larger than the UK. We will reflect this huge diversity in our approach to making successful investments – a one-size-fits-all approach will simply not work. We will take country variation into consideration in our:

- assessment of development needs – our new Impact Score explicitly takes account of country differences in the Productive and Inclusive elements of the score
- selection of effective investment channels – for example, over 2012-21 we have learnt that some direct investments work best if we have an in-market presence ourselves
- in-market presence – during 2022-26 we will move toward having more staff based in the market and outside of our London headquarters
- partnership with the FCDO in-country network – as part of the UK Government's offer to other countries, we will link thoughtfully with other UK Government partners, such as the Department of International Trade (DIT) and UK Export Finance (UKEF)

The result of this is an explicit geographic segmentation to guide our approach through to 2026. We have identified five main groupings, as summarised in the table below[13]. This sets out how all the countries noted in our Investment Policy fit within different segments. As a patient investor, we take a long-term view (more than five years) for each country. We will of course react to more immediate conflict or security issues as required and continue to adjust our operations accordingly, as we have done in the past.

[13] See also Appendix A: Geographic segmentation and expansion.

Segment	Example countries	Development needs and investment channels	Our in-market footprint
Mature 	India	• Our new impact score will incentivise the following kinds of transactions – Productive – if there are potentially strong market transformations and economic enablement effects – Sustainable – focus on climate themed investments – Inclusive – where the underserved beneficiaries are known, including gender-led businesses and a drive towards local ownership • All investment channels, but with careful emphasis on additionality	• Full service office with ability to lead transactions • Bespoke country perspective/plan
	South Africa		• Regional office with country head and investment team representation • Bespoke country perspective/plan
'Powerhouse'[14] 	Nigeria, Egypt, Kenya, Bangladesh, Pakistan, Ethiopia	• Our new impact score will incentivise a broad range of investments • All investment channels	• Regional office with country head and some investment staff • Bespoke country perspective/plan
Stable economies 	Ghana, Nepal, Uganda, Sri Lanka	• Our new impact score will incentivise a broad range of investments in countries with high development need, and a narrower set of investments in countries where GDP per capita is higher and/or the proportion of the population living in absolute poverty is lower • Potentially all investment channels – but a very strong emphasis on partnership approach if investing directly, and limited opportunity for large tickets	• Single representative office in selected larger markets • Otherwise coverage from regional office and/or London
Poorest and most fragile 	Afghanistan , Burundi, Central African Republic, Chad, Congo, Democratic Republic of Congo, Somalia, Sudan and South Sudan Other countries as per 'Alpha' category of the 'inclusive' part of our impact score	• Our new impact score will reward most kinds of investments in such countries • Investment channels mainly include: – Specialist intermediaries, for example letter-of-credit-issuing banks as part of trade-finance arrangements, and very focused fund managers – Regional companies with local operations – Project finance if following multilateral development banks with preferred creditor and political risk guarantees `	• Coverage from either regional office and/or London
Indo-Pacific climate finance, and Caribbean	Indonesia, Philippines, Mekong (Cambodia, Laos, Vietnam) Caribbean ODA-eligible countries	• Indo-Pacific focus on climate finance • Phased build-out starting with climate/green infra funds, then project finance vehicles, then direct equity investments • Caribbean opportunities subject to further assessment	• Indo-Pacific representative office in 2022

[14] We have determined Ethiopia to be a Powerhouse country given the size of its population and its potential as an economic hub in the Horn of Africa. Given the unfolding political and security situation we are keeping the country under assessment.

Mature markets of India and South Africa

India and South Africa have sophisticated economies, but there is still significant opportunity for us to create impact. We will emphasise climate finance, targeting specific underserved groups, and seeking productivity gains via market-transformational effects, including across the wider sub-continental region. Given the relative strength of domestic capital markets in India and South Africa, we will place a strong emphasis on making sure our capital and support brings something the market cannot provide.

In **India**, we already employ almost 40 people, and have developed a set of strong commercial relationships with key Indian institutions and businesses, including the National Investment and Infrastructure Fund (NIIF) and Tata Cleantech Capital. For 2022-26, the opportunities we see in India include:

- Productive – we will look to back companies in manufacturing, logistics, food and agriculture and other sectors, that can help raise productivity across the economy. Our technology investments can also help increase access, affordability and inclusion of products or services. We will look to work with specialised lending institutions to reach SMEs through new business models and financing.
- Sustainable – we have committed to making over £750 million in climate-finance investments in India over the next five years, where there is still a strong market need. In the 2017-21 period, we laid the groundwork for this, including in our instrumental role in creating our platform company, Ayana Power.
- Inclusive – we will continue to back businesses that create large numbers of good-quality jobs for low-income workers. We will also back inclusive business practices by supporting women-focused business models and extending access to essential products and services, including affordable housing for underserved populations.

In **South Africa**, our team of professionals who focus on building relationships and partnerships with other providers of capital in South Africa and across the wider region. In 2022-2026, we will focus on:

- Productive – we will look for opportunities that could raise productivity across the wider region. These could include investing to make goods and services available across the region; and investing to solve weak connectivity and poor trade logistics, which increase costs, and which, if improved, can support regional availability of goods and services.
- Sustainable – we will support climate-change mitigation by investing in commercial and industrial solar energy, the sustainable forestry sector and climate-smart businesses. These might include utility-scale renewable generation and transmission, including by bidding in the country's renewable-energy procurement rounds. We will also look to support South Africa in adapting and becoming more resilient to existing climate impacts and future threats, in areas such as water and sanitation infrastructure, and water conservation. We will also explore climate financing lines through the country's banking sector.
- Inclusive – we will focus on supporting local manufacturing companies that can improve the affordability of products consumed by poorer households to meet basic needs, and back businesses that create large numbers of good-quality jobs for low-income workers, such as agribusiness and business services, and sectors that can support those who might currently be working in companies within legacy industries, as we move to a new green economy. Finally, we look to back black-owned and women-owned South African funds in the SME sector, through a programme of intermediated investments.

'Powerhouse' countries

We have termed Nigeria, Kenya, Egypt, Bangladesh, Pakistan and Ethiopia as Powerhouse countries as they offer considerable opportunity for us – and development finance in general – to do much more. Powerhouse countries combine a significant level of development need, the ability for development finance to be additional, with a good and improving environment for private-sector businesses and a reasonably large addressable market. Many of the Powerhouse countries are also economic and finance hubs for a wider region (for example, Kenya for East Africa and Egypt as the fastest-growing market in North Africa). In Powerhouse countries, we will keep all investment products and channels in scope and will deploy capital at a scale that can have an economy-wide effect if the right opportunity can be found. We will consolidate or set up a regional hub office in most of the Powerhouse countries, with investment staff from each sector-focused investment group based in each office by the end of 2026.

Our high-level views of the opportunities in some of the Powerhouse markets are set out below. We will amplify this view with a **country perspective** for each Powerhouse market (and for the mature markets of India and South Africa), to be developed within the first year of our new strategy period. Each country perspective will, taking account of national development plans and FCDO country plans, set out in more detail how we will apply our strategic impact objectives and sector-and-product toolkit between 2022-26.

Nigeria is Africa's most populous country and biggest single economy. However, its resources and opportunities have not translated into sustained economic growth and shared prosperity for its citizens. Nigeria is estimated to have the largest number of people living in extreme poverty of any country globally over the 2022 – 2026 period.[15] There are big regional disparities between the more-fragile states of the north and the economic hub of Lagos and surrounding states. Infrastructure gaps are a major deterrent to private-sector growth. Nigeria's potential as a hub for transforming other regional economies in West Africa is held back by limited regional integration, trade and connectivity. Areas of potential investment opportunity include:

- manufacturing, especially linked to the development of fully functioning special economic and free zones
- agri-processing, which could minimise post-harvest losses and enhance food security, which could be transformative in the north
- financial institutions, who could be strong partners in supporting local-currency lending, trade finance and on-lending facilities for micro and SMEs
- other opportunities including affordable housing, manufacturing and industrial parks, and off-grid power and renewable-energy infrastructure solutions.

Kenya's development aspirations are to create a sustainable and equitable economy, to transform the lives of ordinary citizens. This entails boosting economic growth, creating more jobs for young people, and building vital infrastructure to tackle extreme poverty and achieve shared prosperity. Strengthening the weak links between the formal and informal sectors, and encouraging initiatives that bridge this gap, will be a key priority. Finally, Kenya plays a central role in East Africa as the largest economy and as a gateway to the region, positioning it as a springboard for Uganda, Rwanda and Tanzania. Areas of potential investment opportunity include:

- companies in the business-services and consumer-services sectors, especially to aid their expansion across the region (Uganda, Rwanda and Tanzania)
- the ICT, telecommunications and FinTech sectors, which are vital for connecting rural communities and for enabling broad-based, inclusive growth
- critical and green infrastructure such as renewable-energy generation, to reduce reliance on hydropower, expanded irrigation infrastructure to reduce the volatility in agricultural output, and transportation
- less-developed climate technology particularly in battery storage, and projects in the water, sanitation and hygiene sector
- on-lending to micro and SMEs, to enable access to finance, and addressing the lack of mortgage-lending structures to close significant stock gaps in affordable housing.

Egypt has strengthened its macroeconomic fundamentals, to restore confidence in the economy and increase its ability to absorb internal and external shocks. Egypt aims to position itself as the 'gateway to Africa', focusing on import substitution, benefiting from Egypt's global competitiveness for exports and finding alternative sources for foreign currency beyond tourism and extractives. A large and growing consumer base and middle class is also creating growth in consumer businesses, including in social infrastructure such as healthcare and education. Areas of potential investment opportunity include:

- off-grid renewable-energy solutions and water infrastructure in less developed parts of the country, particularly given the country's increasing challenge of water scarcity
- trade and logistics infrastructure, to support the export growth of the country at large
- companies providing affordable goods and services, particularly in social-infrastructure sectors that are seeing significant demand placed on them, such as health

[15] Kharas, H., & Dooley, M. (2021). *Extreme poverty in the time of COVID-19. Brookings.*

- exporters, including by moving upstream to more-complex manufacturing activities, and helping to improve participation in global value chains.

Bangladesh has a sizable and young population of approximately 165 million people. Youth unemployment in Bangladesh stands relatively high, at 12 per cent (compared to 4 per cent for all age groups). Furthermore, the female labour-force participation rate is relatively low at 36 per cent, in comparison to the male labour-force participation rate of 84 per cent.[16] Creating opportunities for low-skilled youth and women can both address inequality and create economic growth. Areas of potential investment opportunity include:

- supporting large companies that operate domestically, or can contribute to export diversification. This might include supporting responsible companies in the ready-made garments sector, manufacturing, food and agriculture, financial institutions and infrastructure
- commercial and industrial power operators, for suitable ground-mounted solar projects and rooftop solar projects
- financial institutions through trade finance solutions and longer-term finance solutions tied to climate (such as solar, green-certified manufacturing) or SMEs
- new fund managers, who in due course can contribute to the development of the nascent local private equity market.

Pakistan is the fifth most populous country in the world and set to grow by a further 40 million people in the next 15 years.[17] Recent GDP growth has lagged behind other South Asian countries. The country is in urgent need of a more-sustainable and equitable growth model that can help create jobs and offer better opportunities for the over two million youth who join the labour force every year. With the security situation improving,[18] coupled with a jump in the Ease of Doing Business rankings, and gradual formalisation of an outsized informal economy, Pakistan presents an important opportunity for us over the next five years. Areas of potential investment opportunity include:

- utility-scale renewable-energy projects as well as commercial and industrial power, and off-grid solar projects to reach rural communities
- water-treatment solutions to provide access to clean water for domestic and industrial use
- manufacturing, to help reduce Pakistan's large trade imbalances and boost foreign-exchange inflows
- micro SMEs and microfinance institutions, as well as opportunities for FinTech to transform access to finance.

Stable economies

We have identified 32 countries in Africa and South Asia that have a stable environment for private-sector businesses, but with fewer opportunities and a more-limited ability to absorb large investments than in Powerhouse countries. As such, we will be quite selective about where we have a presence in Stable countries (which will include Nepal and Ghana), with our coverage more typically provided by regional hub offices (e.g. in Nairobi or Lagos) and from London. Without our own in-market presence, we will typically prefer investing in Stable economies through partnerships with others and through intermediary investment channels, who have their own footprint and in-depth market knowledge. These partners and channels include:

- platform investments (such as Globeleq)
- investments through regionally-focused companies (such as telecoms or infrastructure operators)
- financial-services investments via regional banks
- fund managers (whether for credit, venture or private equity funds)
- project-finance structures especially for infrastructure

[16] ILOSTAT
[17] UN World Population Prospects
[18] Note that recent events over the border in Afghanistan may have a significant impact on Pakistan's economy and stability in the years to come.

The poorest and most fragile countries

We have identified 23 countries in Africa and South Asia that have the highest poverty gaps, lowest levels of GDP per capita or are designated extremely fragile by the OECD. We are very keen to channel capital here given the potential for high development impact. Our new Impact Score will give the highest default scores to these countries accordingly. However, despite very high development needs, in practice there are not always many suitable transactions for development finance to back in the poorest and most fragile countries. Nor is realising commercial and impact success easy given the challenging environment for private-sector businesses. We are collaborating with other DFIs to address private-sector barriers to investment through networks such as the Africa Resilience Investment Accelerator to create more opportunities for investment. Currently, suitable transactions are best found and managed through specialist intermediary channels including:

- platform investments (such as Gridworks, which has recently announced a solar-hybrid power deal in the DRC) to develop and finance projects in such markets. Identifying suitable sources of concessional finance may also help such platforms do more (e.g. through viability-gap finance) and we will look at incentivisation mechanisms to ensure platform company management continues to look at opportunities in more difficult markets
- pan-regional investments with world-class operating companies, who may be able to further channel capital into extremely fragile markets (for example, our investment with DP World will fund expansions to the Berbera port and associated logistics facilities in Somaliland)
- bespoke trade finance and risk-sharing arrangements with regional banks (for example, our trade-finance arrangement with EcoBank, which is supporting trade and commerce in Togo, Burkina Faso and Chad)
- project-finance vehicles with strong recourse mechanisms and most likely to be benefiting from preferential creditor status with multilateral development banks (MDBs).

Fragile states – using the OECD classification

Our developmental mission requires special consideration of fragile states. However, several definitions of fragility abound. For the 2022-26 strategy period, we will follow the OECD classification of fragility. By the OECD classification, approximately a third of our portfolio, by value, is already in fragile states. To our knowledge, this is the highest proportion among the major bilateral DFIs. We would expect to at least sustain this proportion over the next five years which, coupled with overall portfolio growth, should see the absolute amount we have invested in OECD fragile states rise.

The OECD determines fragile countries based on multidimensional indicators of fragility and places countries within two subcategories: 'fragile states' and 'extremely fragile states'.

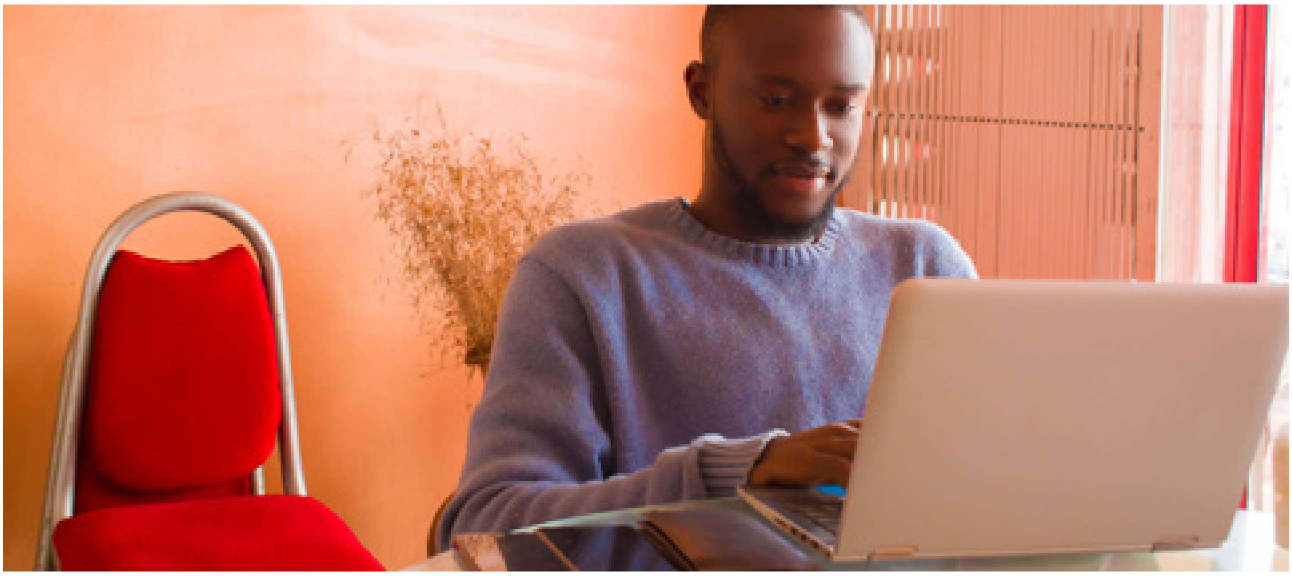
OECD fragile states This group includes 36 countries where we can invest, mostly in Africa. Five Powerhouse markets (Nigeria, Kenya, Bangladesh, Pakistan and Ethiopia) are classified as OECD fragile states, and in these we will have a strong in-market presence and offer a full spectrum of investment capabilities across sectors and products. In smaller markets, we will continue to provide coverage from our regional offices to countries that are in close proximity.

OECD extremely fragile states This group includes nine countries (Afghanistan, Burundi, Central African Republic, Chad, Congo, DRC, Somalia, Sudan and South Sudan) where we can invest across Africa and Asia. All extremely fragile states are included in our 'Poorest and most fragile' grouping, where we will use specialist channels and intermediaries to ensure the investments we make have a good chance of being successful. We will be unlikely to channel direct investments into national corporates or financial institutions. We will also not channel capital into infrastructure investments without the political-risk mitigation and preferred-creditor status afforded by MDBs as lead arrangers. This is to learn from our 2012-21 experience and the difficulty in securing effective impact or commercial outcomes through directly held investments in extremely fragile markets.

Expanding into the Indo-Pacific through climate finance, and the Caribbean

We will expand into Indo-Pacific countries by investing in climate finance and natural-capital opportunities. This will support the region's resilient growth and climate-change objectives and generate global public good. Our focus will be on the larger economies of Philippines, Indonesia and the Mekong region (Vietnam, Cambodia and Laos). Our initial scoping of the larger Indo-Pacific markets tells us there is a strong need to decarbonise and strengthen the power sector through renewable energy, and support investments in the water and sanitation sectors. Market participants report continued need for development finance capital. We will aim to deploy support across our full capital toolkit: working with trusted partners among sponsor companies and project developers for potential equity investments; fund managers who specialise in infrastructure or more-innovative climate finance; and the multilateral development banks for large project-finance transactions. We aim to commit up to £500 million over the 2022-26 period for climate finance in the Indo-Pacific.

We also have new flexibility in our 2022-26 Investment Policy to invest in ODA-eligible countries in the Caribbean. We will look for opportunities to do so, possibly also through a climate-finance lens, as such opportunities arise.



3.4 Working with the best, and mobilising commercial investors

Working with others for expertise and capital is a key part of our approach. For 2022-26 we will strengthen our partnerships in several directions:

Commercial and financial partners, including the best of British business

The best commercial operators bring market access, knowledge and specialist expertise that we could never hope to replicate ourselves across 60+ countries. Over the past five years, we have developed regional commercial partnerships in telecoms, logistics and ports infrastructure, and pharmaceutical manufacturing.

Often the best operators are British businesses. This is likely to become more common as 'UK plc' orientates towards, and seeks opportunities in, the growth markets of Africa and Asia. We will seek to add to the partnerships we have already established that involve British companies, including:

- Lightsource BP – a leading British developer of renewable energy – investing alongside us to develop renewable energy in India (via our majority-owned renewable-energy company Ayana)
- M-Kopa – one of Africa's leading providers of home solar systems, with R&D operations in Woking in the UK
- GlaxoSmithKline – a beneficiary of an innovative financing solution between Gavi and MedAccess, who we back, to ensure GSK could continuously manufacture a new malaria vaccine ahead of key decisions regarding its roll-out

Working with the best investment managers and financial institutions is another critical part of our approach. These will include established managers with a strong performance record, an ability to mobilise commercial capital, and an ability to make large investments – all critical to enhancing our investment scale, reach and diversification. Our approach may also include working (with Catalyst capital) with managers pursuing highly impactful strategies which are unproven or innovative, which either address particular development themes or countries that are difficult to invest in.

With our investor partnerships, we are fortunate to have close links with the City of London. We contribute to London and the UK's position as a hub for development finance, including through:

- support to UK-based private equity funds focused on Africa, such as Helios and DPI who both manage assets above $2 billion. We committed to their first funds in 2006 and 2009 respectively.
- our partnership with Standard Chartered Bank. Since 2013, we have developed a $500 million partnership in trade finance across sub-Saharan Africa and South Asia through innovative risk-sharing and trade-finance arrangements.

Mobilising commercial investors

We recognise that mobilisation of commercial investors is vital. We do this in several ways. We grow companies to the point where they can subsequently raise commercial finance, which is known as **sequential mobilisation**. We can prove the viability of new business models for impact or even new investment markets, which is known as **mobilisation by demonstration**. We also attract private co-financiers alongside our own investments, known as **direct mobilisation**.
For 2022-26, the breadth of our capital toolkit means multiple approaches and activities that can contribute to different forms of mobilisation:

Type of mobilisation	Over 2022-26 we will...
Demonstration (testing new models and strategies)	• continue to create innovative structures and back differentiated strategies using our various **intermediated investment approaches**, including Catalyst-supported impact funds and venture funds • look to enable **open-source investment data** to reduce misperceptions of risk in our markets
Sequential (proving the viability of specific investments)	• continue to mobilise using our core **direct equity**-investment programme. By investing equity, we strengthen companies' balance sheets, which can help them leverage further capital. As we exit, we also encourage sequential mobilisation • provide patient **debt to financial institutions**, especially tier-2 capital. This can improve bank capital adequacy and allow for loan-book expansion • explore other activities that can support sequential mobilisation, including working with **local pension funds** and building capacity for investing in private equity funds (where appropriate) • use our **investor arrangement desk**, which we created in 2020, to increase our understanding of commercial investors' investment requirements. Through this we will seek to deepen and broaden the range of investor partnerships we already have, including with **sovereign wealth funds** (this approach can also provide simultaneous mobilisation)
Simultaneous (co-financing with others)	• support **debt funds**, which can be attractive to new commercial investors in emerging markets given their relatively lower risk profile (compared to equity), and because the loan repayments mean they are self-liquidating • mobilise through **infrastructure project finance** either by acting as the lead arranger for a consortium of lenders including commercial investors, or in future through coordinated project-finance vehicles • continue our **intermediated equity programme** as a key product for mobilisation among private co-investors, including local institutions, impact investors (especially for Catalyst Strategies funds) and strategic players. We will explore the flexibility to develop a **pan-emerging markets approach to innovative climate funds** as a suitable platform for global institutional investors • share risk with **commercial banks** to make use of their 'asset-gathering' engine. More innovative risk-sharing models, such as our 2021 transaction with Ecobank to provide trade facilities in countries such as Togo, Burkina Faso and Chad, shows we can incentivise banks to expand loan books even in very difficult markets • build relationships with **strategic mobilisation networks**, including the Impact Investing Institute, EMPEA, AVCA, Net-Zero Asset Owners and with specific match-making platforms such as Convergence and Asoko Insight Deal Rooms

Over 2022-26, we will do more to connect suitable investment opportunities with commercial investors, although we will always take care to work within our regulatory permissions when doing so. We will focus on two broad categories of commercial investors. First, asset managers, which includes domestic pension funds especially in Nigeria, South Africa and India, insurance companies, private banks and wealth managers, and fund-of-fund managers. Second, asset owners, which includes foundations investing from their endowments, investment banks trading on their own accounts, private family investment offices; and sovereign wealth funds in the Gulf states, Asia and elsewhere. We plan to get better at understanding the 'gating' requirements and preferences – which will be unique for each investor – with regard to returns, risk, liquidity, duration and impact themes. We have recently established an investor desk to build our relationships with investors in a more systematic way. Once we have a good understanding of the requirements and needs of a specific commercial investor, we can connect them to products we are invested in that might fit their requirements. We will also investigate whether a dedicated pool of capital could be identified and used to broaden our participation in structured investment vehicles alongside other commercial investors (explored in section 3.6).

We will continue to measure and evaluate our ability to mobilise, although doing so is rarely straightforward:

- Sequential and demonstration mobilisation, while very valuable indeed, can take a long time and are hard to measure. We will continue to input into, and learn from, the results of the ten-year independent longitudinal evaluation of our ability to mobilise private investors – an evaluation study explicitly designed in recognition of the timeframe and measurement difficulties. We will also investigate whether more quantitative ways of measuring our own rates of indirect mobilisation are possible.
- Direct mobilisation is calculated by both the MDB[19] and OECD[20] methodologies for direct mobilisation. We will continue to report – but not maximise – our direct mobilisation rates. Maximising our rates of direct mobilisation would work against other key elements of our approach, including our desire to invest in: unproven markets; fragile countries; riskier parts of the capital spectrum; and, to be demonstrably additional.

UK Government partnership and wider UK toolkit

We are proud to be part of the broader UK offer to developing countries, and our new name[21] makes this clear. Supporting countries' economic transformation requires the strengths of all parts of the UK offer – not just the private-sector investment we provide, but also dedicated policy and diplomatic support, technical assistance to build markets, and greater international trade and cooperation. Further UK tools may come on stream in future, including access to concessional loans for infrastructure, and enhanced packages of expertise and standards setting. Each part of the UK offer can mutually reinforce the others, for example:

- the country insights of the network of UK Embassies and High Commissions can benefit us as we source and manage investments
- the UK's diplomatic network can help us navigate regulatory barriers and engage governments
- our investment expertise can help inform the UK Government's approach, and its activities in specific countries
- sharing sector expertise and priorities can help strengthen the UK's development programming.

We will collaborate with other parts of the UK offer, with regular interaction between HMG Heads of Mission, our leadership team, FCDO's key economic programmes (e.g. PIDG, AgDevCo) and UKEF and DIT colleagues. HMG posts will provide details of their country strategies, and help develop our country perspectives for our Powerhouse and Mature countries. We will aim to increase the visibility of our own portfolio of investments, to help demonstrate the quality and impact of the UK's offer with other governments and businesses. As we collaborate, all sides will take care to maintain the separation of governance and mandate that is necessary for our commercial independence.

[19] World Bank (2018) *MDB Methodology for Private Investment Mobilization: Reference Guide*
[20] OECD (2020) *DAC Methodologies for measuring the amounts mobilised from the private sector by official development financial interventions*
[21] A name change for a 70 year-old financial institution is a complex process. As such, we will continue to trade as CDC until 4 April 2022, and the roll-out of our new name across the markets where we are active may take considerable time.

Examples of British International Investment – UK Government collaboration

Ayana Power – Since we started work on establishing the company in 2016, FCDO and HM Treasury officials have supported engagement with the Government of India, which ultimately led to funds being mobilised from India's National Investment and Infrastructure Fund. In addition, we ran a training programme alongside FCDO to increase employment opportunities in the solar industry. The close alignment of this climate-finance investment to both our climate goals and the UK Government's priorities in India, makes Ayana a valuable showcase for the UK-India partnership.

The CASA programme – FCDO's Commercial Agriculture for Smallholders and Agribusinesses programme has been advised by our staff, and we are one of seven anchor investor partners for the technical-assistance element, which will support 35 agribusinesses in deepening commercial and smallholder impact over the next five years. Our close involvement in the programme has created opportunities to deepen impact in our investment portfolio. For example, a project with our investee, Jacoma Estates Limited in Malawi, is working to expand production of high-value macadamia nuts, birds eye chili and paprika in northern Malawi for export, with offtake from out-growers. This is connecting them to the global value chain and the provision of irrigation infrastructure for neighbouring smallholder farmers is supporting climate resilience.

Like-minded development finance and impact investing partners

We work closely with other DFIs and regularly invest alongside other partners to maximise impact and use each other's capital and expertise. We aim to be a thought leader among development finance institutions. In just the last few years we have:

- worked closely with other G7 DFIs and multilateral development banks to mobilise over $10 billion of gender finance between 2018-2020, and set new industry standards for gender-lens investing
- worked with other DFIs to develop Just Transition Finance Roadmaps for South Africa and India, to guide the financial sector on contributing towards an inclusive transition to net zero
- worked together on the fragile states agenda. The value of a collective DFI voice in making the case for private-sector development and investment has been shown in, for example, Ethiopia
- we have also co-organised an annual DFI Fragility Forum which fosters sharing information and taking joint approaches to DFI investing in fragile contexts, and we will continue to participate in G7 and DFI initiatives on improving the investment environment in fragile states
- supported efforts to harmonise standards and metrics for impact investing – including the Harmonized Indicators for Private Sector Operations (HIPSO) and the Joint Impact model (JIM), which enables the quantification of indirect jobs, value added, and greenhouse-gas emissions related to investments of financial institutions
- committed, alongside the G7 DFIs, the International Finance Corporation (IFC), the private-sector arm of the African Development Bank (AfDB), EBRD and the European Investment Bank, to investing $80 billion in the private sector over the next five years, to support sustainable economic recovery and growth in Africa

Beyond DFIs, we seek impactful partnerships with a wide range of civil society organisations – from business and industry associations through to think tanks and charities. For example, we have partnered with WWF on its Water Risk Filter online assessment tool to address water risk. More broadly, we run regular events on key global development challenges, where an exchange of learning and best practice takes place. We are also active in efforts to promote the impact-investing market with, for example, a close relationship with the Global Impact Investing Network (GIIN) and the Global Steering Group (GSG) on Impact Investing.

3.5 Being world-class in impact management and responsible investment

How we invest is just as important as the amounts we invest. We are proud to have built a world-class impact-management framework, and be recognised leaders in responsible investing, both of which are central tenets of our approach for the next five years.

Our impact management framework

We seek to maximise our impact throughout the investment lifecycle, from informing our approach to sector and asset allocation, investment origination and selection, through investment structuring and portfolio management, to responsible exits and evaluations. All aspects of our impact management are overseen by a Chief Impact Officer, who also champions how being impact-led is central to our organisational culture. At the very heart of our approach is our overarching Impact Framework, which provides the lens through which we assess the expected development impact of our investments (captured in our investment-level 'impact dashboards') and monitor an investment's performance over time. This has enabled us to be a founding signatory of the Operating Principles for Impact Management (OPIM) – we received our first independent verification of alignment with these principles in 2020, and will continue to seek independent examination of our processes, to ensure we continue to lead industry best practices.

Our impact contribution

We are a publicly owned development finance institution, and we exist to carry out investment activities that the private sector would not – or does not yet – provide. Even if a business seeking our capital is highly impactful, we will only invest if we judge the impact of the business will be greater as a result of our involvement. We call the difference in impact 'our contribution'. Our contribution may arise from:

- the nature of our involvement – the provision or terms of our finance, our role and influence as an investor and setter of standards, the range of services we provide, or our role in mobilising other investors
- our confidence that we are providing support that commercial investors would not
- the scale of difference that our contribution makes to the expected impact case.

Our market-leading environmental social and governance (ESG) standards

Our renamed Policy on Responsible Investing sets out how we invest responsibly in environmental, social, governance (ESG), and business integrity matters, which is key to our licence to operate. The policy states clearly what we expect of our investees, and emphasises our role and commitment to achieving environmental and social (E&S) and business integrity (BI) support to our portfolio.

We have reviewed and updated the Policy on Responsible Investing to reflect emerging themes and requirements, following a series of consultations involving FCDO and other stakeholders. One of the key themes in the update has been to emphasise that strong ESG and BI risk-management systems create inherent value for investees. The updated policy highlights how we work in a practical and proportionate way to support our investees, and sets out a positive narrative about the broader value of achieving good governance, BI and E&S practices. The requirements of the policy support our impact goals, and it clearly links good BI and E&S practices with development impact and commercial success.

The requirements for our investees, as set out in the policy, flow from our own corporate commitments. The updated policy has a stronger articulation of the commitments to climate, gender, human rights and business integrity we expect investees to meet. We are also evolving internal procedures and policies to provide a higher level of management insight into portfolio performance, and to support good practices in private-sector investment in developing countries more broadly. We recognise the need to progress our Grievance Recourse Mechanism, which is being undertaken in parallel with the Policy on Responsible Investing review and will provide an independent review mechanism in relation to our implementation of the policy.

How our ESG standards work at investment and market-building level

Our specialist ESG team is involved at several stages, from due diligence, negotiating legal requirements, generating environmental and social action plans and supporting portfolio management. They approach the role with a practical and informed perspective that fully acknowledges the real challenges many portfolio companies face in implementing good international practices in the countries where we invest. Such practices remain a significant demand for many portfolio companies for a range of reasons including (i) uncertainty within the company about how to follow good international practices, especially in areas that lie beyond those typically assumed by companies, such as supply chains and stakeholder and community engagement, (ii) new issues that come to the fore, or evolve quickly (such as climate and human-rights matters), that are increasingly material, but not wholly defined in international standards or norms, and (iii) the generally weaker enforcement of E&S regulations in the countries where we invest.

We also play an important role in strengthening industry practice in ESG. We have developed a range of good-practice guidance, capacity-building programmes and online tools to help the portfolio (and other emerging market investors) better manage E&S performance. In the past two years this has included: good-practice guidance on modern slavery and gender-based violence, in accordance with UK Safeguarding Standards; significant efforts made to support working practices and health and safety in response to COVID-19; social-performance workshops for fund managers; guidance on health and safety in the energy transmission and distribution sector; and the launch of an online ESG toolkit for financial institutions.

Our approach to business integrity

Our mission leads us to invest in places that present significant BI risks, such as potential exposure to financial crime, such as fraud, bribery and corruption, money laundering and terrorist financing, sanctions breaches and tax evasion, as well as broader unethical business practices. We take all reasonable measures to mitigate these risks. We conduct a thorough business-integrity due-diligence process before investment, and thereafter monitor the practices of all our investees. Our specialist BI team acts as the first line of defence for proactively managing risks to our firm and its underlying investments, working in a hands-on fashion with our investees, to move beyond a 'pure compliance' approach to one that recognises the business value of good BI risk management to all our investees.

Over the 2022-26 period, we will continue to work alongside our portfolio on BI matters, aiming to follow best practice, support building of capacity, and provide training and online tools to help the portfolio better manage BI performance.

Our approach to tax transparency

Tax revenues are essential for countries to be able to finance their national development priorities and provide their citizens with essential infrastructure and public services. Our Tax Policy reflects our commitment to fostering responsible tax practices by our investees, including desisting from artificial arrangements which reduce taxable profits in the countries where they operate, as well as requiring them to comply with relevant tax laws. We will continue to review our Tax Policy over the 2022-26 period to ensure we stay at the forefront of international best practice.

Our preference is always to invest directly in the country or region an investment is located, and to limit the proportion of capital we invest through offshore financial centres. To the extent we invest through intermediary jurisdictions, it is because not all countries have the stable administration and legal systems necessary to invest in safely, and to enable international investors to invest alongside us. We never do so to avoid tax or to escape transparency. We further require that any intermediary jurisdiction is committed to the various OECD initiatives (such as the OECD Global Forum and Inclusive Framework) and other relevant standards that facilitate a more transparent global tax environment.

3.6 Exploring a broader private-sector development offer

Over 2022-26 we will look into, together with our shareholder, adding one or more new capabilities to our core toolkit and strategy. This could potentially broaden our private-sector development offer, with options under consideration including:

- **advisory services** for shaping markets and developing our investment pipelines. Such a service could see our 'investor lens' applied to work at a sector level through, for example, supporting feasibility studies, establishing market standards, or (potentially) supporting regulatory frameworks that enable responsible private businesses and impactful investments to grow. It might also involve support to the investment ecosystem and development of new investment managers. Building a large advisory service would take time and need grant finance. We will begin by supporting FCDO in-country offices in the design of their own market-building programmes in three to four countries, and feed the lessons from this into the design of any larger service we offer.
- **concessionary capital for blended investments**, to support high-impact business models (including outside of climate) that are currently commercially marginal due to structurally challenging economics, or because of the first-mover disadvantage of innovative approaches.
- **a dedicated capital pool focused on mobilisation**, which could take concessional positions within structured investment vehicles. Such a pool could offer junior tranches or guarantees within structured vehicles. This may, in turn, help to reduce the instrument-level risk or increase the instrument-level return for commercial investors in a different part of the structure, and to a degree that can unlock their investment. Without such structured support, these commercial investors may otherwise be constrained from investing in the markets we do, due to internal, fiduciary and regulatory (e.g. capital adequacy) requirements.

As with our approach to creating our Catalyst portfolio in 2017, establishing any new capability will require our Board to be confident it passes several tests:

1. Strategy and capability – that it addresses a clear market need, that we could successfully implement it given our existing or adjacent skills, and in a way that we would have a comparative advantage over existing market players.
2. Governance – to ensure a robust control regime, adherence to the principle of independent decision making, (in the case of concessional finance) ensure minimum use of economic subsidy in pursuit of additional development impact and, (in the case of blending) adherence to DFI principles on blended finance.[22]
3. Visible medium-term funding – particularly when potential new capabilities require grant finance or subsidised concessional capital, which we cannot support from our core investment business.
4. Adequate time for our management to deal with it – to ensure we retain sufficient focus on our core investment business. In practice, new capabilities need to be prioritised and phased in over time.
5. Organisational coherence – to ensure any new offer complements, not detracts from, our core investment focus, to ensure coherence with a series of related considerations, including market positioning, expertise, regulatory treatment and accounting practices.

[22] In the use of any grant or concessionary capital that may blend with our own or other investors' capital, we will adhere to the principles of the DFI Working Group on Enhanced Blended Finance ("DFI principles"). This will include the creation of appropriate governance structures for decision making across thSe different pools of capital.

4.
Our operations and organisation

We can select and manage a successful portfolio of investments only if we have the right operations and organisation to support this. For the next five years, this means carefully considering our:

- investment volume, risk and return – so we balance these appropriately in pursuit of our three strategic objectives
- funding and liquidity model – with self-financing at the centre of our model
- people and locations – accessing the best talent in the right places
- risk management approach – to ensure it is sufficiently rigorous as we grow

4.1 Investment volume, risk and return

British International Investment is an investment platform capable of achieving impact at scale. Over the past five years, we have committed almost £7 billion of new investments and have supported more than 600 businesses, with our net assets growing in value to approximately £7.5 billion. Over 2022-26, we plan to grow further, and aim to commit around £9 billion of new investments over the period. Despite the scale of this ambition, we will not set annual volume targets, as we want to be guided by the shifting needs and opportunities of the countries we invest in, as well as to retain the highest standards of investment selection.

In making and managing this investment programme, we will set a risk-return appetite that maximises the achievement of our impact objectives subject to the preservation of our capital over the long term. We are willing to take substantial risks in support of our mission and development outcomes, including investing in the riskiest markets and the riskiest part of the capital structure, in so far as they do not materially affect our licence to operate. Our substantial risk appetite is supported by our single shareholder mandate and funding structure. After considering the lessons of the last period, and our new planned initiatives for 2022-26, such as our expansion into the Indo-Pacific, we consider that our risk appetite across our Growth and Catalyst portfolios was appropriately set during the period 2017-21 and no material change is needed for 2022-26.

The return on our investment portfolio is likely to continue its downward trend during the 2022-26 period, although we will aim to keep returns above our 2 per cent gross financial performance measure and to remain financially sustainable. This downward trend is a planned consequence of our strategic shift since 2012. It is also due to shifts in global capital markets: long-term equity returns – even for profit-maximising asset managers with a global geographical focus, investing in both public and private markets – have declined in recent years. COVID-19 has created further economic headwinds. The downward trend is also the consequence of significant exposure to currency fluctuations out of our control, with frontier-market currencies (in which the majority of our investments are denominated) depreciating and Sterling (the currency of our incorporation and statutory reporting) appreciating in recent years.

4.2 Funding and liquidity

Self-financing is at the centre of our business model and has underpinned the company for nearly 75 years. Because our investments on aggregate preserve their capital and provide an additional return, we can recycle these into new investments for future impact. In steady state, this is a model that can continue indefinitely without the need for any new capital. During periods when we aspire to step up activity, as we will be doing in 2022-26, we will require some new core capital.

The decision to provide further core capital to increase our investments is always one taken by the UK Government, in agreement with our Board, with the limit on capital that can be provided controlled by Parliament through the Commonwealth Development Corporation Act, 2017.

In managing our capital, we ensure we have enough liquidity to honour ongoing investment commitments and respond to market shocks, without holding excessive amounts of cash, with the opportunity cost this would represent for other potential uses of public funds. We do this through adhering to our liquidity policy, set by our Board, and which sets both a minimum commitment coverage ratio as well as a permitted cash-to-portfolio value range of 0-10 per cent.

We will need to amend our plans for the 2022-26 period if some, or all, of the capital needs we have identified are not available. These amendments might include lowering the scale of our core investment programme in order for our core funding model to remain sustainable; or reducing our efforts to scale up advisory services or use concessional capital, if we cannot identify suitably large and reliable sources of finance that are grant-based or can bear a capital loss. As an investment business operating in frontier markets, our business model is not sufficiently profitable to support such activities to any significant degree.

4.3 Talent and locations

We are a talent-driven business. Our people represent and are valued for their diverse perspectives. We attract smart, highly-skilled knowledge workers from across the world, who are drawn to and motivated by our compelling mission. They come from various disciplines: financial services and investment, environmental and social governance, development impact as well as climate, gender or other sector specialisms.

Over the past five years, we have more than doubled in size to almost 500 people, without whom we would not be able to consider the ambitions we have for the next five years. We now have around 14 per cent of staff based in our investment markets (rather than in the UK), up from around 7 per cent in 2017. During the past five years, we have opened offices – or added representation – in Nigeria, Egypt, Kenya, Ethiopia, Bangladesh, Pakistan, Myanmar and Nepal, to complement the presence we had in 2017 in India, South Africa and Zimbabwe.

Over 2022-26 we plan to:

- increase our staff further to reflect our growing investment scale and breadth of activity
- continue to invest in our employees to strengthen career development and length of tenure
- further grow the proportion of employees based in markets, relative to the UK, with investment officers from each of our three principal investment groups in each regional hub office by 2026, and also add representation in Ghana and the Indo-Pacific
- maintain our strong culture, underpinned by a set of core values that describe 'us at our best'. These values are to be: impact-led; commercially rigorous; tenacious in the face of challenges; collaborative and caring. These values inform the standards of behaviour expected of everyone in the company. They are part of our performance reviews and promotion criteria.
- further increase the diversity of our teams. We are proud that 50 per cent of our Board members are women, while 20 per cent of our Executive Committee and 36 per cent (against a target of 40 per cent by 2023) of our senior leadership population is currently female.

4.4 Risk management

As an investor operating in challenging markets and in riskier products, the ability to identify, assess, respond, monitor and report on risk in our business activities is critical to executing our strategy. We reviewed our approach to risk in 2020 and adopted a 'three lines of defence' model, in line with best practices at other DFIs. We have particularly strengthened our second line of defence through a specific risk team. This team is responsible for our overall risk-management framework, including: initiatives to articulate our risk appetite clearly; supporting risk owners (the first line of defence) in identifying and understanding risks, enabling informed decisions to be taken to mitigate risks; and performing risk reporting to executive committees, the Board and Shareholder.

This system works across four broad categories of risk we are exposed to:

- **Financial Risk** – The risks of underperformance or unacceptable volatility of the investment portfolio return, including market, credit and counterparty, country and liquidity risk.
- **Impact Risk** – The risks of failing to meet our impact objectives by failing to invest in businesses and economies which improve people's lives and protect the planet.
- **Operational Risk** – The risk of inadequate or failed processes, people and systems that result in business disruption, cause financial losses, negatively affect our ability to achieve our objectives, and potentially harm our reputation.
- **Strategic Risk** – The risk that we fail to achieve our Investment Strategy.

5. How we will measure success

Everything we do will be in pursuit of our mission and our three strategic impact objectives. We will monitor progress towards and be held accountable to these objectives through: a set of publicly reported impact metrics; two key performance measures agreed with our shareholder; and, our longer-term learning and thought-leadership programme.

5.1 Publicly reported impact metrics

For 2022-26 we will publicly report on the following development impact metrics in our Annual Report:

		Output/outcome metrics	Input metrics
Aggregate metrics at portfolio level		Total jobs supported (based on the Joint Impact Indicators definition) Average annual employment growth Total taxes paid Total attributed portfolio carbon footprint (tCO2e) $ of simultaneous mobilisation (OECD definition)	Aggregate impact score $ and % commitments based on each of the SDGs
Linked to impact objectives	**Productive**	Scale metrics • Electricity generated (GWh) • Gross loan portfolio • Number of people reached (for example, farmers, customers of financial institutions)	
	Sustainable	% and value $ of portfolio in climate finance and carbon-related assets Emissions avoided from renewable energy (tCO2e) Total direct green jobs supported	$ and % commitments that are climate finance qualified
	Inclusive	Number of low-income people reached (people living below $5.50/day)	$ and % commitments that are 2X qualified

5.2 Performance measures agreed with our shareholder

Our 2022-26 Investment Policy sets two principal performance measures that we have agreed with our shareholder: the Aggregate Impact Score and the Financial Performance measure.

The Aggregate Impact Score

We aim to maximise the impact of our portfolio, subject to our financial performance measure (and other considerations). We will assess the impact of our portfolio through our new impact-scoring system. The impact score of each investment captures how it contributes to our three strategic objectives through Productive, Sustainable and Inclusive sub-scores:

Impact score	= Productive score	+ Sustainable score	+ Inclusive score
What does this mean?	Raising the productivity of an economy so that it can support a decent standard of living for all.	Helping transform the economy to reduce emissions, protect the environment and adapt to the changing climate.	Sharing the benefits of higher productivity and greater sustainability with poor and marginalised sections of society.
How will we measure it?	1. Degree of need 2. Intensity 3. Economic enablers 4. Catalysing markets	1. Climate mitigation 2. Climate adaptation and resilience	1. Reach to low-income populations 2. Poor and fragile countries 3. Gender and diversity

The impact score will be calculated on commitments and disbursements, and updated after two years, to reflect actual performance. It is intended to encourage the organisation to invest in ways that contribute most directly to our objectives. It also sets expectations for individual transactions on which we can track performance. We will generate and report an Aggregate Impact Score as a weighted average of individual impact scores for all investments committed to from 2022 onwards, which we expect to range between four and eight during the 2022-26 period.

We recognise any scoring system presents an incomplete picture of the full impact of individual transactions. So the impact score will continue to be complemented by other impact management tools, including transaction-level impact theses and impact-monitoring plans and ratings.

The Financial Performance measure

Our Financial Performance measure articulates our appetite for financial risk and return, as well as ensuring the proper stewardship of taxpayer owned assets. For 2022-26 we will seek returns of 2 per cent across our total portfolio, as measured on a rolling seven-year basis and gross of our operating costs. This measure is consistent with our financial sustainability on a long-term basis.

5.3 Learning and thought leadership

Our investments have a greater impact when they benefit other firms in an economy. In the same way, we hope to influence other impact investors through our learning and evaluations, and our thought leadership. As part of our commitment to learn from success – and failure – we have developed, with our shareholder, a joint evaluation and learning programme, running from 2017-24. Overseen by an independent steering group chaired by FCDO's chief economist, the programme focuses on multi-year independent evaluations across our three core sectors: Infrastructure and Climate, Financial Services and SMART Industries. In 2021, the Independent Commission for Aid Impact (ICAI) noted that our monitoring and evaluation mechanisms were being applied and fed into our organisational learning.

In parallel to this independent evaluation programme, our own Insight series publishes research and thought leadership concerning our portfolio companies, our strategies, and the wider world of development finance. Our ESG, gender and climate teams participate in relevant global standards-setting initiatives and publish guidance papers and other learning material intended for the impact-investing community.

6. Conclusion – our vision for British International Investment in 2026

Our vision is to be one of the leading impact investors servicing Africa, Asia and beyond. We will have achieved this if we are the following:

- **Impact-focused** – driven by our strategic objectives to prioritise investments that are productive, sustainable and inclusive. We develop and deploy a world-class impact framework that provides rigour and discipline to individual investment decisions, evaluation of actual development returns, and transparent dissemination of results. We are best-in-class, responsible investors who keep pushing the boundaries of what development finance can achieve.
- **A national standard bearer** – our revised brand closely associates us with our shareholder government, and we play a role in supporting UK development objectives in the countries where we invest. We also play a key enabling role in the emergence of the UK as a hub for development finance and impact investing.
- **Solutions-driven** – we deploy the broadest possible capital toolkit. We are equally proficient in direct and intermediated routes to market. We operate comfortably across the whole capital structure – short-term liquidity and trade finance to longer-term debt and equity. We provide technical assistance to companies and market-building support. We have staff on the ground in key countries. We mobilise substantial capital alongside our own as the preferred partner for both impact and mainstream investors.
- **Comfortable taking risks in support of development outcomes** – we continue to operate mainly as an equity investor, in the riskiest part of the capital structure. We continue to proactively create new investment platforms, to address specific market failures and mobilise new sources of capital.
- **Investing and operating at scale** – we demonstrate that we can invest in difficult markets at scale, to meet the extent of need.
- **Innovative and thought leaders** – we are at the cutting edge of key cross-cutting themes such as gender, climate and digital transformation. We support new business models, including at early stages, that promise to bring material improvement in living standards, and will fund the infrastructure that makes this possible. And we help to lead the debate on how these issues can support sustainable growth in the private sector, and create high-quality jobs.
- **Strong in human capital and operational capability** – we have world-class people. We blend both financial and developmental expertise in equal measure. We have the culture, values and incentive systems to attract and retain the very best people in both these disciplines. We also require world-class systems and operational platforms capable of supporting transactions in a range of different products, currencies and countries.

We believe that – if we execute well on the strategy we've laid out – we can meet this vision by, or before, 2026. In so doing, we will reinforce all that is best about the UK as a 'Force for Good', the UK financial-services industry and the UK's commitment to international development.

Appendix A: Geographic segmentation and expansion

Countries from 2017-21 strategy

Mature

India
South Africa

'Powerhouse'

Bangladesh
Egypt
Kenya
Nigeria
Pakistan
Ethiopia

Stable economies

Algeria
Angola
Bhutan
Botswana
Burkina Faso
Cameroon
Cape Verde
Comoros
Cote d'Ivoire
Djibouti
Eswatini
Equatorial Guinea
Gabon
Gambia, The
Ghana
Guinea
Lesotho
Libya
Maldives
Mauritania
Mauritius
Myanmar
Morocco
Namibia
Nepal
Uganda
Sao Tome and Principe
Senegal
Seychelles
Sri Lanka
Tunisia
Zimbabwe

Poorest and most fragile

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

New countries

Indo-Pacific (climate finance) and Caribbean

Belize
Cambodia
Dominica
The Dominican Republic
Fiji
Grenada
Guyana
Haiti
Indonesia
Jamaica
Kiribati
Lao PDR
Malaysia
Marshall Islands
Micronesia
Nauru
Niue
Palau
Papua New Guinea
Philippines
Samoa
Salomon Islands
St Lucia
St Vincent and the Grenadines
Suriname
Thailand
Timor-Leste
Tokelau
Tonga
Tuvalu
Vanuatu
Vietnam
Wallis and Futuna

Appendix B: Our strategy in summary

01 Our impact objectives	We will be driven by **three strategic objectives** that will build back for a better world – and are rooted in the future opportunities that Asia and Africa present	**Productive** Addressing constraints to economic growth and catalysing markets, including through digital transformation	**Sustainable** Financing a cleaner, greener planet, with climate finance >30% of all new commitments	**Inclusive** Investing to support more marginalised groups, with gender lens finance >25% of all new commitments

02 How we will deliver	We will invest in economic **sectors** that make up modern thriving economies	**Infrastructure and climate change**		**SMART industries** Services, Manufacturing, Agriculture, Real Estate and construction, and Technology and telecoms	**Financial services**
	We will provide solutions to firms and markets through our **flexible toolkit and appetite for risk**	Investing across the capital spectrum from equity to senior debt, including via large 'tickets'		Using multiple channels – direct into companies, banks and projects and through a range of intermediaries	Using our Growth and Catalyst portfolios to bring different risk tolerances for differential impact
	We will take a **segmented approach** to diverse geographies, to inform our in-market presence and offer	**Mature** (India and South Africa)	**Powerhouses** (Nigeria, Egypt Pakistan, Kenya, Bangladesh, Ethiopia)	**Economically stable**	**Poorest and most fragile**
	We will **expand into new geographies***	Indo-Pacific climate finance expansion and ODA-eligible countries in the Caribbean			
	We will **partner with the best** operators and investors. We will be an **honest and reliable partner ourselves**	Working with like-minded partners: leading commercial operators and investors; DFIs and SWFs, British business; and a strong UK Government partnership		Being an honest and reliable partner ourselves, with the highest standards across ESG and business integrity	
	We will look at **new capabilities that would broaden our private-sector offer**, subject to suitable design and funding*	Advisory services to support market-shaping and pipeline-building		Blended concessional capital to unlock further innovation	Dedicated facilities to support mobilisation
	We will scale to be among the **largest bilateral DFIs**	We aim to invest c. £9 billion over the strategy period, subject to adequate capitalisation			

03 How we will measure	Our performance measures aim to maximise impact subject to being financially sustainable	Impact performance measure	Financial performance measure

* New capabilities for this strategy period

British International Investment

CDC will become British International Investment on 4 April 2022.