Briefing on HMG-wide policy on ending support for fossil fuels overseas and its application to the CDC Group

CDC Group's total investments and investment commitments to fossil fuels totalled at least $987.7m in 2019, predominantly going towards gas-related projects. An estimated 90% of these projects would be allowed under CDC's new climate policy. Their recent fossil fuel policy and gas guidance provides no end to their investment in gas-power and associated infrastructure. CDC have stated "We expect gas will continue to feature within our new commitments in the coming years", and that they are already "aligned with the proposed HMG-wide fossil fuel policy", which is currently under consultation and not finalised.

On 12 December 2020, the Prime Minister announced the end of UK support for fossil fuels overseas, which was welcomed by those in civil society, academia, industry and others supporting action on climate change, a just energy transition and clean energy access for all.

A robust policy to end support for fossil fuels has the opportunity to not only address the UK's historic responsibility to directly support others, particularly the Global South, transition from and leapfrog dirty fossil fuel use, but to also galvanise other countries to end support to fossil fuels ahead of the COP26 climate summit.

However, some elements of the proposed policy have raised concerns that billions of pounds in public finance (a large proportion coming from the aid budget) will still fund the use of fossil fuels. This would be incompatible with keeping global warming below 1.5C, alleviating poverty and the Government's own hopes of appropriately addressing climate change ahead of, and at, the COP26 climate summit in Glasgow, November 2021. The concerns relate to the following details of the proposed HMG-wide fossil fuel policy:

1. In the current format the HMG policy does not obligate the CDC Group (CDC) and Private Infrastructure Development Group (PIDG) to comply with the policy, as it seeks only to '*influence*' their policies and does not consider these funding streams as '*direct*'. In 2019, fossil fuels accounted for 85% of the total electricity generated and distributed through CDC investments.

2. Following the announcement on 12 December, CDC immediately published a new fossil fuel policy and guidance on investing in gas power plants and have since stated these policies show they are compliant with the proposed Government-wide policy that has yet to be determined or adopted. This seriously undermines the consultation process and the application of the final policy.

3. The policies of CDC and PIDG alongside a loophole in the proposed HMG policy that allows the continuation of investment in gas-fired power plants and associated infrastructure is deeply problematic, in that it could leave CDC and PIDG continuing to invest hundreds of millions of pounds of UK aid money into fossil fuels. As it stands a potential 94% of CDC's investments in fossil fuels would not be excluded. This would jeopardise the credibility of any final policy and sets a woeful precedent for other countries to follow.

4. A large proportion of funding to fossil fuels from UK public finance is via financial intermediaries. Both CDC and PIDG channel a significant amount of finance to these financial intermediaries to financial that have huge exposure to fossil fuels, including coal, gas and oil.

If the current proposed cross-government policy is adopted with existing exemptions, and the new CDC policy and associated guidance is accepted as compliant with that policy, then CDC and PIDG would continue to hold large (well over £1bn) investments in fossil fuels and would also be able to continue making new investments in fossil fuel projects. This is reflected by a recent comment made by CDC on their website: "*it may be the case that much of our more recent investing activity in gas power is compliant with our newly published strategy*".

As such, the CDC and PIDG position could undermine the credibility of the UK government policy on ending fossil fuel subsidies by allowing UK aid money to continue to be spent on new gas infrastructure in the world's poorest countries, and on the broader fossil fuel industry via intermediary investments in financial institutions; while, encouraging others to abuse an exemption for gas-power including UKEF and other countries that may follow suit.

The UK has an enormous opportunity and responsibility to show leadership on this issue as host of COP26 and the G7, but another weak policy would undermine credibility and set a bad precedent at time when coalitions of the willing are needed to address the urgency of the climate emergency.

The following actions are required to make the government's fossil fuel policy fit for purpose to align with a below 1.5-degree world and show climate leadership ahead of COP26:

1. It must be obligatory for all publicly owned or UK-funded institutions, including CDC and PIDG.
2. There must be no exemptions for gas-power in any circumstances. The only exemption for gas should be in a narrow and defined set of circumstances. These are investments in LPG or natural gas for clean cooking for people living in poverty as a last resort and where no alternative clean options are available.
3. It must prevent investment, including through CDC and PIDG, in funds in financial intermediaries which will continue to fund fossil fuels (i.e. managed funds). They should only invest in funds which explicitly do not invest in fossil fuels.
4. CDC must develop a strategy before COP26 to divest from all support it gives to fossil fuel infrastructure and associated facilities, and all private funds or financial institutions which continue to support fossil fuels. This strategy should be implemented at a timescale that is compliant with a 1.5C pathway.

Detailed Background

Why won't the Government-wide policy prevent CDC investing in fossil fuels?

Firstly, the language used in the HMG fossil fuel policy consultation document[1] which states that the final policy will only "be used to influence the investment policies" of CDC Group and the Private Infrastructure Development Group (PIDG), rather than determining their policies presents a potential for non-compliance by CDC and PIDG. Without any explicit obligation to adhere or be compliant with the HMG-wide policy, these organisations look likely to undermine this proposed policy given the levels of fossil fuels in their current portfolios and projects known to be under consideration currently.

However, if we presume the two policy documents released by CDC (the Fossil Fuel Policy[2] and guidance on gas power investments[3]) are aimed by CDC as demonstrating compliance with the proposed HMG-wide policy (and the comments made by the Parliamentary Under-Secretary responsible for CDC suggests that is the case[4]), then we are given an insight into what sort of activities may still receive UK financial support under certain conditions (labelled *limited circumstances or exemptions*).

The proposed HMG policy consultation document states that the UK will provide "*limited international support for gas-fired power plants and associated infrastructure (such as gas transport, storage and distribution) only if the country where the project is located has a credible emissions reduction plan in line with the Paris Agreement"* (note it does not state a 1.5C target, as specified in the Government's COP26 rhetoric). Given gas represents the large majority of total ODA support for fossil fuels by value and the majority of CDC's and PIDG's fossil fuel portfolio, this exemption is the most concerning.

CDC's gas power guidance states that "*the absence of a long-term decarbonisation plan is not considered as an indication of misalignment at this point, given the majority of countries have not yet developed long-term decarbonisation plans*", and that "*as of today, where a long-term decarbonisation plan does not exist, we will not take this indicator (Paris pathway development) into account, given this is the case in most countries*." This clearly shows that CDC is not aligned with the currently proposed HMG-policy. In either case the support of any new gas-power plant or gas-related infrastructure is not compatible with a 1.5C pathway.[5][6][7]

If the current proposed cross-government policy is adopted with existing exemptions, and the new CDC policy and associated guidance is accepted as compliant with that policy, then CDC Group and PIDG would continue to hold large (well over £1bn) investments in fossil fuels and would also be able to continue making new investments in fossil fuel projects. For example, all of the major projects in development by CDC for which public information is available would potentially have been approved under the new policy. These include the Temane gas-fired power plant in Mozambique and the Qua Iboe gas-fired power plant in Nigeria financed by CDC through Globeleq,[8] and currently in the late stages of development,[9] and the Tema LNG facility to which the PIDG committed $31m in November 2020, which has already been supported through CDC and PIDG investments in the Early Power gas-fired power plant which is essential to the viability of the Tema LNG project,[10] and which could potentially receive further financing by CDC through its latest ($100m) commitment to a new fund managed by the project's promoter Helios Investments.[11]

The proposed CDC policy and guidance is limited only to power and does not include industrial and commercial users of fossil fuels for whom large-scale consumption of fossil fuels is intrinsic to their operations. Examples of relevant direct and intermediated investments by CDC Group would include cement production, fertiliser production and mobile phone towers, in which CDC and other UK-aid funded institutions have previously invested several hundred million pounds in the last decade.

An illustrative example of a direct investment in industrial use of fossil fuels is the investment of UK ODA through CDC, PIDG, and various MDBs in Indorama Eleme, a Nigerian petrochemicals plant using natural gas owned by Indorama, one of the world's largest plastics companies. This represents an investment in the large-scale export of natural gas in the form of nitrogen-based fertiliser (while also contributing to increased plastics production).

UK international support for fossil fuels through CDC and PIDG

The UK currently provides substantial direct and indirect support for fossil fuels overseas, including through UK Export Finance (UKEF) and various bilateral and multilateral institutions receiving UK Overseas Development Assistance (ODA). This support stands in contradiction to the UK's commitments under the Paris Agreement and ambitions as host of the forthcoming COP26 international climate negotiations in November 2021.

The channel for ODA spend on support for fossil fuels overseas over which the UK government has most direct control is CDC Group. CDC Group is a Development Finance Institution (DFI) wholly owned by the UK government, with a mandate to invest in private sector businesses in Africa and South Asia.

- **Between 2015 and 2020, CDC received a total of £3.5bn from DFID** (including £1bn in 2019 and £650m in 2020) **and is scheduled to receive a further £779m in 2021** (even as the overall aid budget is to be cut significantly).[12]

CDC currently invests through two main channels:

- **Direct investments-** direct investments are investments made directly through a range of instruments (equity, debt and guarantees). As of 2019, direct investments represented 60% (£2.79bn) of CDC's total portfolio (£4.74bn).
    - In 2019 direct equity and debt commitments represented 75% (£836.5m) of CDC's total new commitments (£1.12bn).[13]
- **Indirect investments–** through managed funds and financial intermediaries. Fund investments are investments in managed funds which then make investments in companies. Investments in managed funds accounted for 39% (£1.88bn).

Detail as of December 2019, of CDC Group's investments and investment commitments to fossil fuels[14]:

- **Totalled at least $987.7m**.
- Reported a value of $674.7m in direct investments in fossil fuel energy.
- Total existing direct commitments to fossil fuel energy awaiting disbursement was $152.3m
- The reported value of its 42 investments in fossil fuel companies through managed funds was $160.7m.
- In 2019, **fossil fuels accounted for 85% of the total electricity generated and distributed through CDC investments**.
- **Financial services represented 25% of CDC's total portfolio**, second only to infrastructure (28%). By sector, financial services represented over half (£887.3m) of CDC's total investment commitments in 2019 (£1,657.2m). Of this amount, **over 90% (£825.9m) were commitments to financial institutions involved in financing fossil fuel-related activities to some extent**.

Table 1 below shows all of CDC's direct investments in fossil fuel plants and identifies all those that would not be unconditionally excluded under the new proposed policy – predominantly because they are gas projects.

Furthermore, as the single largest donor, the UK also has a high degree of control over the activities of the London-based Private Infrastructure Development Group (PIDG). Since its formation, the PIDG has made commitments (including many of the same projects supported by CDC and UK aid funded MDBs) of:

- $781.5m to fossil fuel power
- $138m to gas transportation, distribution and storage
- $116m to mining and upstream oil and gas
- $96m to oil transportation, distribution and storage

Table I – CDC's investment in fossil fuel projects and their exclusion under the current proposed policy.

Investment	Date	Country	% ownership	Total value ($m)	Fuel type	Excluded? (Y/P/N)	Total value not excluded ($m)*
Summit Meghnaghat	2014	Bangladesh	n/a	17.5	Gas/Diesel	N	17.5
Azura Power	2014	Nigeria	n/a	30.0	Gas/Diesel	N	30.0
Actis Energy Generation (Kribi/Dibamba)	2014	Cameroon	n/a	6.4	Gas/HFO/Diesel	P	4.0
Globeleq Limited (FF 2019 NAV)	2015	n/a	n/a	312.5	n/a	P	302.5
Globeleq (Azito)	n/a	Cote D'Ivoire	76.9	n/a	Gas/Diesel	N	n/a
Globeleq (Songas)	n/a	Tanzania	54.1	n/a	Gas/Diesel	N	n/a
Globeleq (Kribi)	n/a	Cameroon	56	n/a	Gas/Diesel	N	n/a
Globeleq (Dibamba)	n/a	Cameroon	56	n/a	HFO/Diesel	Y	n/a
Globeleq (Tsavo)	n/a	Kenya	30	n/a	HFO/Diesel	Y	n/a
Globeleq (Temane) - in development	n/a	Mozambique	majority ownership	n/a	Gas/Diesel	N	n/a
Globeleq (Qua Iboe) - in development	n/a	Nigeria	majority control	n/a	Gas/Diesel	N	n/a
Amandi Energy	2016	Ghana	n/a	82.9	Gas/Crude Oil	N	82.9
Africa Power Platform (Tsavo) (FF 2019 NAV	2016	Kenya	n/a	1.8	HFO/Diesel	N	n/a
Sirajganj 4	2016	Bangladesh	n/a	103.1	Gas/Diesel	N	103.1
Bangla Offshore LNG	2017	Bangladesh	n/a	25.0	n/a	N	25.0
Te Power	2017	Guinea	n/a	39.1	HFO/Diesel	Y	n/a
Early Power Limited	2019	Ghana	n/a	80.0	Gas/Diesel	N	80.0
Globeleq (Azito) - direct	2019	Cote D'Ivoire	n/a	45.1	Gas/Diesel	N	45.1
Total (power)				743.5			690.1
				100.0%			92.8%
Indorama Eleme	2013	Nigeria	n/a	40.0	Gas	N	40.0
Indorama Eleme	2018	Nigeria	n/a	100	Gas	N	100
Total (fossil fuels)				883.5			830.1
				100.0%			94.0%

The other elephant in the room: supporting fossil fuels via financial intermediaries.

As well as investing directly and through managed funds in non-financial private companies, a large and growing percentage of CDC Group's total investments are in financial companies and institutions which then finance private companies and individuals. These investments represent a substantial but unquantified source of additional UK aid support for fossil fuels.

As of December 2019, financial services represented 25% of CDC's total portfolio, second only to infrastructure (28%). By sector, financial services represented over half (£887.3m) of CDC's total investment commitments in 2019 (£1,657.2m). Of this amount, over 90% (£825.9m) were commitments to financial institutions involved in financing fossil fuel-related activities to some extent.[15]

CDC Group's total exposure to fossil fuel financing through this route is likely to be large. For example, Trade and Development Bank (TDB), a regional development bank, has received several CDC funding commitments since 2016 (including US$100m in 2021).[16] In 2019, oil and gas loans represented over a quarter (28%) of T&D Bank's loan distribution by portfolio sector, with loans to infrastructure including power (undivided by generation type) representing 23% and energy a further 4%[17] Another representative example is Afrexim Bank, with which CDC Group has a $100m risk sharing guarantee programme.[18] In 2019, the bank's largest sectoral exposure after financial services was to oil and gas (23%), with power (undivided by generation type) representing a further 7%.[19]

CDC's new policy states that financial institutions with fossil fuel exposure will continue to be considered eligible for investment "*subject to us seeking credible evidence that the recipients of the investments are working towards aligning future activities and portfolios with the Paris Agreeme*nt", and that trade finance activities for refined energy products would also be permitted. This limitation seems unlikely to influence future investment decisions in any meaningful way and lags behind other peer institution's commitments, such as the International Finance Corporation which commits to support clients to reduce coal exposure to zero by 2030.[20]

[1] UK Government. 2020. Aligning UK international support for the clean energy transition. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943724/Consultation_-_Aligning_UK_international_support_for_the_clean_energy_transition_-_121220.pdf

[2] CDC Group. 2020. Fossil Fuel Policy. https://assets.cdcgroup.com/wp-content/uploads/2020/12/12150401/CDC-fossil-fuel-policy_December-2020_FINAL.pdf

[3] CDC.2020. Natural Gas Power Plants: Assessing alignment with the Paris Agreement. https://assets.cdcgroup.com/wp-content/uploads/2020/12/12145227/CDC_GasGuidance_December2020.pdf

[4] Parliamentary Under-Secretary James Durridge (FCDO). Answer to parliamentary question on 2 February 2021. "*CDC's policy is aligned with the HMG fossil fuel policy which excludes fossil fuel investments, except under certain circumstances. Any timeline for completely stopping gas investments would be dependent on HMG fossil fuel policy*." https://questions-statements.parliament.uk/written-questions/detail/2021-01-27/144822

[5] International Energy Agency (IEA). 2018. The IEA stated in relation to publication of its World Energy Outlook (WEO) that almost all of the world's carbon budget up to 2040 would be accounted for by emissions from existing power stations, vehicles and industrial facilities.

[6] Global Witness. 2019. Overexposed. https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/overexposed/

[7] Oil Change International. 2016. The Sky's Limit. http://priceofoil.org/2016/09/22/the-skys-limit-report/

[8] Globeleq. 2021. https://www.globeleq.com/operations/#projects.

[9] Globeleq. 2021. https://www.globeleq.com/blog/funding-approvals-and-epc-selection-moves-mozambiques-temane-power-project-forward/ and; https://www.thecable.ng/exclusive-qua-iboe-power-project-stalls-as-fg-weighs-liabilities

[10] In 2019 CDC made an $80m investment in the Early Power plant in Tema. PIDG made a $50m investment and provided a $76m guarantee in 2019, following an earlier $50m guarantee in 2016.

[11] CDC Group. 2021. https://www.cdcgroup.com/en/news-insight/news/cdc-group-backs-helios-iv-with-us100-million-commitment/

[12] Devtracker. 2021. https://devtracker.fcdo.gov.uk/projects/GB-1-203444/transactions

[13] CDC Group.Annual Accounts. 2019. https://www.cdcgroup.com/wp-content/uploads/2020/06/CDC_AA19.pdf

[14] CAFOD. 2020. CDC Energy Support Overseas. https://cafod.org.uk/About-us/Policy-and-research/Climate-change-and-energy/Sustainable-energy/CDC-support-energy-overseas

[15] CAFOD. 2020. CDC Energy Support Overseas. https://cafod.org.uk/About-us/Policy-and-research/Climate-change-and-energy/Sustainable-energy/CDC-support-energy-overseas

[16] CDC Group. 2021. https://www.cdcgroup.com/our-impact/underlying/trade-development-bank-3/ and https://www.tdbgroup.org/cdc-and-tdb-sign-a-usd-100-million-short-term-finance-facility/

[17] TBD Group. 2020. https://www.tdbgroup.org/wp-content/uploads/2020/04/TDB-Annual-Report-2018-English.pdf

[18] CDC Group.2021. https://www.cdcgroup.com/en/our-investments/investment/afrexim-bank/

[19] Afreximbank. 2019. Annual Report. https://afr-corp-media-prod.s3-eu-west-1.amazonaws.com/afrexim/Afreximbank-Annual_Report_2019-1.pdf

[20] IFC. 2020. IFC's Approach to Greening Equity Investment in Financial Institutions. https://www.ifc.org/wps/wcm/connect/05541643-0001-467d-883c-5d7a127ffd57/IFC+Greening+Report+Sept+2020.pdf?MOD=AJPERES&CVID=nisvaOC&ContentCache=NONE&CACHE=NONE