ICAI Independent Commission for Aid Impact

ICAI follow-up: UK aid to India

A summary

April 2024

The Independent Commission for Aid Impact works to improve the quality of UK development assistance through robust, independent scrutiny. We provide assurance to the UK taxpayer by conducting independent reviews of the effectiveness and value for money of UK aid.

We operate independently of government, reporting to Parliament, and our mandate covers all UK official development assistance.

Individual review scores and what they mean

An adequate score means:

- Enough progress has been made in the right areas and in a sufficiently timely manner in order to address the core concerns underpinning ICAI's recommendations.

An inadequate score results from one or more of the following three factors:

- Too little has been done to address ICAI's recommendations in core areas of concern (the response is inadequate in scope).
- Actions have been taken, but they do not cover the main concerns we had when we made the recommendations (the response is insufficiently relevant).
- Actions may be relevant, but implementation has been too slow and we are not able to judge their effectiveness (the response is insufficiently implemented).

Any enquiries regarding this publication should be sent to us at icai-enquiries@icai.independent.gov.uk.

@ICAI_UK icai.independent.gov.uk

Introduction

1.1 Every year the Independent Commission for Aid Impact (ICAI) returns to the reviews we published in the previous year's cycle to follow up on the steps the government has taken in response to our recommendations. This process is a key link in the accountability chain, providing Parliament and the public with an account of how well government departments have responded to ICAI reviews.

1.2 ICAI's country portfolio review of *UK aid to India* was published in March 2023. The follow-up assessment of the government's response to ICAI's five recommendations is presented below.

The Foreign, Commonwealth and Development Office (FCDO) has taken steps to direct its aid portfolio towards poverty reduction through developing a theory of change. FCDO recognises the need for further work on its draft theory of change, and ICAI would like to see stronger evidence on how interventions funded by official development assistance (ODA) will contribute to inclusive growth and address persistent 'pockets of poverty' in India. Some modest FCDO projects in support of civil society groups are well designed and impactful. There are some stronger links between UK-funded research and investments made by British International Investment (BII), the UK government's development finance institution, and significant steps forward in BII's interventions to mobilise private finance.

BII published a new India country strategy in July 2023 with convincing links to poverty reduction and a greater focus on inclusion, including attention to regional inequalities within India. However, the new strategy does not yet seem to be shaping investments sufficiently, and additionality is still not a consistent focus. We found recent BII investments in Indian funds that pose significant reputational risks to BII and have questionable links to poverty reduction. These include investments in the cosmetics industry as well as social media platforms featuring hate speech, abuse of women and offers of sexual services. We found that such investments were made two months after BII's CEO, in April 2023, had reassured Parliament's International Development Committee (IDC) that, following concerns about an investment in a cosmetic surgery clinic, future investments in India would only be made if there was a 'compelling argument' relating to inclusion and sustainability, which was not the case in these subsequent investments. These recent BII investments in India raise material concerns about the governance of BII as well as about its responsiveness to the IDC and ICAI.

1.3 ICAI's country portfolio review of *UK aid to India* gave an amber-red score. The review found that the UK had transitioned from funding traditional poverty-focused aid projects in India towards a fragmented portfolio using a mix of investment, technical assistance and research. FCDO had moved towards providing technical assistance and its own investment programme, in parallel with the investments of the UK's development finance institution, British International Investment (BII). Additionally, ODA-funded research partnerships between UK and Indian research institutions had been developed, funded by the Department for Science, Innovation and Technology[1] and the Department of Health and Social Care.

1.4 ICAI found that the new model of development cooperation did not have a strong development rationale and that the UK's bilateral portfolio was fragmented. The £1 billion of UK aid invested in India by BII in the period between 2016 and 2021 (constituting 28% of BII's global portfolio by value) did not have a clear link to inclusive growth or poverty reduction. ODA-funded research partnerships were built around global development challenges but were weakly integrated with the rest of the portfolio. The review found, however, that when it came to implementation, programming was generally well managed and effectively delivered. ICAI provided five recommendations, mainly focused on improving the development relevance and coherence of the UK's aid portfolio in India, to build on its partnership and delivery strengths.

1 The research portfolio was first under the former Department for Business, Energy and Industrial Strategy, and then from February 2023 under the newly formed Department for Science, Innovation and Technology.

Subject of recommendation	Government response
The UK should focus its aid to India on a limited number of areas where UK aid can help make India's economic growth more inclusive and pro-poor, with clear theories of change to guide the design of aid programming and development diplomacy.	Partially accepted
The UK should build on its emerging success story in climate finance and green infrastructure, looking for opportunities to combine technical assistance, research partnerships, development investments and multilateral partnerships for greater impact and value for money.	Accepted
UK development investments should have a greater focus on mobilising private finance at scale to address climate change, particularly from large institutional investors based in the City of London.	Accepted
British International Investment should reassess its approach to ensuring additionality in its India portfolio.	Partially accepted
The UK should look for opportunities to support coalitions of Indian research institutions and non-governmental organisations working on social issues, in support of the UK India Country Plan goal of championing open societies and democratic standards.	Accepted

Recommendation 1: The UK should focus its aid to India on a limited number of areas where UK aid can help make India's economic growth more inclusive and pro-poor, with clear theories of change to guide the design of aid programming and development diplomacy.

1.5 This recommendation was based on the finding that the UK aid programme in India consisted of a scattered, rather than thematically integrated, portfolio without an explicit rationale linking its priorities to the reduction of poverty, which is the statutory purpose of UK aid. The government only partially accepted the recommendation, arguing that it is broad economic growth that has driven the reduction in poverty in India. It did, however, commit to making more use of theories of change,[2] "not only for our aid funding but as a framework to deploy all the tools at our disposal to achieve our objectives, including those shared objectives set out in the India-UK 2030 Roadmap".

1.6 While the recommendation was only partially accepted, in practice the government has taken some important steps towards addressing ICAI's concerns. In December 2023, it added a high-level theory of change to its India-UK Economic Cooperation Programme. This is a good start but, as FCDO itself acknowledges, it needs further development. The evidence base underpinning the theory of change's assumptions on how proposed activities and outputs will lead to the desired impact and change needs strengthening. In particular there is a need to strengthen the evidence underpinning assumptions on how ODA-funded interventions can contribute to inclusive growth and address persistent 'pockets of poverty' in India. That said, the route from the financing of climate transition and sustainable infrastructure to sustainable economic growth has been well evidenced.

1.7 In the period between the publication of ICAI's review to the follow-up of its recommendations, the FCDO India team has focused on supporting the G20 meeting held in Delhi in the autumn of 2023. It has therefore had limited time to develop the theory of change. Projects in 2023 and 2024 that started after ICAI's original review show mixed evidence when it comes to reducing fragmentation of the portfolio and strengthening the focus on inclusive and pro-poor impact. Considering this limitation, and the recognition within the FCDO India team that the theory of change should be developed further, the recommendation must be considered inadequately implemented. Recognising the importance of a strong theory of change to ensure a coherent and effective portfolio of programmes, ICAI recommends returning next year to revisit progress on developing the theory of change and assess evidence that it is being used in funding decisions.

2 A theory of change is a model that sets out how and through what mechanisms an intervention, or a set of interventions, is expected to lead to a particular outcome or set of outcomes. A theory of change includes setting out the contextual factors that may constrain or facilitate the outcome, as well as assumptions about the causal chains that would allow the intervention to lead to that outcome. The theory of change should include the evidence basis on which such causal claims are made.

Recommendation 2: The UK should build on its emerging success story in climate finance and green infrastructure, looking for opportunities to combine technical assistance, research partnerships, development investments and multilateral partnerships for greater impact and value for money.

1.8 ICAI's review found that there was a lack of synergy between different strands of UK aid to India, including insufficient use and uptake of research produced by the substantial aid-funded UK-India research partnerships. The government fully accepted the recommendation.

1.9 Aid-funded activities on climate change continue to be of high quality, with substantial financing, continued new initiatives and good leveraging of influence at the India-led G20 meeting. This included, in September 2023, the UK's Chancellor of the Exchequer and India's Finance Minister signing a £1 billion UK guarantee to the World Bank to support clean energy investment and India's climate transition, including its COP26 commitments, during the 12th UK-India Economic and Financial Dialogue. It also included BII making high-impact, pro-poor green investments in two- and three-wheel electric vehicles for manufacturing and battery swapping stations which will both support informal sector livelihoods and contribute to electric vehicle market-building in India.

1.10 FCDO has also begun to look for more synergies between research in India and BII investments, with good examples provided of linking research to planned BII investments and market-building in electric vehicles and green hydrogen, and partnerships with research actors. Even though synergy and uptake are still not consistently embedded in the research process, given the good examples within the short timeframe, we consider progress on this recommendation to be adequate.

Recommendation 3: UK development investments should have a greater focus on mobilising private finance at scale to address climate change, particularly from large institutional investors based in the City of London.

1.11 ICAI's review found that in contrast to the relative success of FCDO's own development capital investments, BII's efforts had been less fruitful in scaling up or replicating the results of successful early-stage climate projects through mobilising further investment from private investors, including from large institutional investors based in the City of London. The recommendation was accepted and BII has since placed a strong emphasis on mobilising private finance. It has a new investor desk in London and BII India is actively involved with this desk, holding discussions about international and domestic institutional investors and engaging in innovative thinking about financing structures. We found that both FCDO India and BII India felt there was significantly more positive coordination across government – although BII in London noted that this needed to develop further.

1.12 The recommendation has been helped by the publication of the *White Paper on International Development* in November 2023,[3] which lists the mobilisation of private finance as a key strategic goal. BII's new five-year strategy also has an enhanced approach to mobilisation of private finance. BII and FCDO are both aware of the challenges in mobilising private finance as well as recognising the opportunities.

1.13 BII's new strategy now needs to be implemented. The new investor desk together with other initiatives and strengthened cross-government engagement constitute significant steps forward for private finance mobilisation. While outcomes are yet to be seen, the direction of travel is positive and ICAI therefore assesses the response to this recommendation to be adequate.

Recommendation 4: British International Investment should reassess its approach to ensuring additionality in its India portfolio.

1.14 ICAI's review found that BII's India portfolio lacked financial additionality given the relative maturity of India's financial markets.[4] It also noted that BII's India portfolio adopted too broad a definition of 'inclusion' and did not effectively target low-income or marginalised groups. It did not convincingly link its investments to the reduction of poverty and some of its earlier investments did not have well-integrated climate or environmental objectives. BII partially accepted ICAI's recommendation since it did not agree that its investments lacked additionality.

3 *International development in a contested world: ending extreme poverty and tackling climate change: a white paper on international development*, HM Government, November 2023, link.

4 Additionality, in respect of development investment, is a contribution beyond what is already available from the private sector. 'Financial additionality' refers to not duplicating what is already available from financial markets. See *UK aid to India*, Independent Commission for Aid Impact, March 2023, p. v, link.

1.15 The internal BII India country strategy from July 2023 makes convincing links to poverty reduction and addresses many of ICAI's concerns, due to its increased focus on inclusion in the Indian context and on climate finance. It raises the need to balance high-impact transactions and a focus on nascent sectors with impact on poverty and climate (such as investments in biogas, green hydrogen, grid stabilisation and electric vehicles). ICAI is pleased to see that the strategy moves away from generic financial institution financing and that it focuses on regional inequality (with more attention to the poorer states of north and north-east India) and market-shaping.

1.16 However, while at a strategic level this is a significant improvement, the new strategy is not yet shaping investments sufficiently. ICAI found that BII investment in one fund, India Quotient Fund IV, raises significant concerns about BII's openness to scrutiny and its governance. The $8 million investment was made in June 2023, after ICAI published its original review. On BII's website,[5] India Quotient Fund IV is described as a fund that invests in "Agri-tech, Fin-tech, SaaS [software as a service] for SMBs [small and medium-sized businesses]". However, several businesses that BII invested in through India Quotient Fund IV are not mentioned. These include a cosmetics company, three social media sites and a debt collection business, while only one of BII's direct investments relates to the agriculture sector. Other investments by India Quotient that do not receive direct investment from BII but create reputational risk for BII 'by association' include other social media platforms, including dating sites.

1.17 The investment in India Quotient Fund IV has a questionable relationship to poverty reduction, the statutory purpose of UK ODA.

1.18 In addition, the rationale for additionality appears unclear. India Quotient has previously raised significant funds and the BII investment was part of a further $115 million fundraising exercise. All of this $115 million was from private financiers, with BII being the only participating development finance institution, making the case for any financial additionality weak. The value additionality of India Quotient Fund IV was given as 'improvement of processes, practices or standards' and involved an environmental, social and governance plan, but any improvement in practices or standards is in doubt given the issues found by ICAI discussed below. Overall, this raises clear concerns that BII is still not focused on additionality, despite its disagreement with ICAI's assessment.

1.19 Furthermore, the reputational risk to BII of investing in such social media sites is substantial, because of their potential for use for pornography, abuse and hate speech. We found that ShareChat, one of the India Quotient Fund IV investee social media sites[6] in which BII invested, has been used for posting video content of physical abuse of women, offering sexual services,[7] and posting videos glorifying Hamas's attacks on Israel. While BII had provided content moderation training and processes for ShareChat, content moderation does not identify and remove all harmful material, as demonstrated in this case by the content that ICAI identified. Investment in social media sites where harmful content can easily be posted opens BII up to reputational risk, given its mandate and relationship to the UK government. This reinforces the IDC's concerns about BII's ability to manage risks from intermediated funds effectively.

1.20 BII's Investment Committee for India discussed the reputational risks linked to the India Quotient Fund IV investments in the dating app, ShareChat and Sugar Cosmetics, describing them as "not aligned to BII's impact ambition". The investment committee, in a second meeting, decided that the investment in ShareChat was acceptable on condition that the business met environmental, social and governance standards, including content moderation. BII told us that they decided that the investment in Sugar Cosmetics was acceptable on the grounds that a majority of employees were women and noted that one of the directors was a woman. Only the dating app was referred to a Reputational Risk Committee which determined that BII should excuse itself from the investment in the dating app and that dating apps should be added to its list of types of investment which should be excluded in general.

5 On BII's website, India Quotient Fund IV is described as a "pre-seed/seed venture fund investing in unique to-India businesses building for mass-market Indian consumers (living outside of Tier 1 cities) and the vast SME landscape" that invests to "support the growth of B2B [business-to-business] and B2C [business-to-consumer] focused new enterprises across sectors Agri-tech, Fin-tech, SaaS for SMBs [small and medium-sized businesses]", link.

6 India Quotient portfolio, link.

7 With the same video posted on explicitly pornographic websites and on other social media sites.

1.21 BII's Policy on Responsible Investing explicitly excludes investments involving prostitution and requires proactive management of risks relating to political exposure. This policy appears to have been breached, given that BII has invested in ShareChat where we found examples of offers of sexual services and glorification of Hamas's attacks on Israel. Given the evident challenges of content moderation for social media platforms, it is hard to understand why this investment was not referred to the Reputational Risk Committee. It appears that the governance processes to ensure compliance with the policy were not strong enough.

1.22 Furthermore, BII involvement in what the IDC chair described as "bizarre investments like cosmetics clinics" elicited concern in a hearing with the committee on 25 April 2023 both because of the lack of a poverty reduction rationale in these investments and because of the IDC's ongoing concern about governance of intermediated funds.[8] The IDC's concern again related to a BII investment in India. BII's CEO and Chair reassured the IDC that investments in India were only made when they had a "compelling argument" and high scores on sustainability and inclusion, and that fund investments were subject to a "disciplined" process that was "becoming more disciplined by the year". Following the hearing, BII provided further written evidence to the IDC stating that its investment in a cosmetic surgery clinic had been part of the restructuring of a larger healthcare portfolio and that "learnings from the investment have helped the refinement of BII's fund investment strategy".[9] In June 2023, only two months after this evidence was given to the IDC, BII made its investment in India Quotient Fund IV. This was an established fund with substantial investments in social media and cosmetics businesses with a BII impact score of only 4/10, making such a "compelling argument" conspicuously absent.

1.23 The IDC has also expressed concern about how BII can maintain integrity when investing through funds. BII reassured the IDC in written evidence in April 2023 that it requires compliance with its Policy on Responsible Investing[10] for all fund investments. The policy includes the minimum controls that fund managers are expected to have in place as well as ongoing due diligence tests to ensure compliance with the policy. It appears in the case of India Quotient Fund IV that BII's due diligence tests were inadequate.

1.24 BII has a further 477 active investments via funds in India, including 193 in "communications & IT services" and 87 in "consumer services". ICAI found further examples where the BII website description of businesses did not accurately describe their actual activities. For example, Blume Ventures India Fund IV is a $240 million fund in which BII invested $14.4 million in 2021. The BII website[11] describes it as having impact through "access to healthcare and education and clean-tech solutions",[12] although its impact score was a low 4/10. While BII's portfolio of investments through Blume Ventures did include positive "clean-tech solutions", it has no underlying investments relating to access to healthcare and includes low-development-impact investments in video entertainment sites. There are two education investments (one of which is described as education for women to learn "baking, cooking, stitching, chocolate making, makeup [and] hairstyling [...] and use this to set up their home businesses"). Furthermore, given that Blume Ventures (like India Quotient Fund IV) is a large and well-established venture capital fund in India with more than $600 million of assets under management and a track history of successful private capital raising,[13] it is questionable if this investment had any financial additionality. BII's website says that there was value additionality, involving an environment, social and governance action plan.

1.25 The new BII India country strategy incorporated many of ICAI's recommendations, such as stronger attention to inclusion, including regional inequality and women's economic empowerment. However, the India Quotient Fund IV and Blume Ventures investments raise concerns about BII's commitment to the new strategy. These include material concerns about the integrity of BII's control process and investment standards for funds, as well as about its responsiveness to the IDC and ICAI. Furthermore, these investments have exacerbated ICAI's ongoing concerns about additionality in BII's Indian portfolio.

8 *Oral evidence: Investment for development: The UK's strategy towards development finance institutions, HC 884,* International Development Committee, House of Commons, 25 April 2023, Q214, link.

9 *IDC's Investment for Development inquiry – Submission by BII, the UK's development finance institution*, British International Investment, n.d., link.

10 BII's Policy on Responsible Investing, link.

11 BII's website describes Blume Ventures India Fund IV as "a venture capital fund investing in tech-led start-ups, with the aim to solve hard problems and impact large markets in India" and states that the "investment in Blume Venture Fund IV will support the growth of scalable tech businesses which are increasing access to economic opportunities, goods and services, and improving quality of life for consumers through tech", with the fund's primary impact being through "healthtech and climate tech" and the beneficiaries including "patients and students" and "the planet".

12 Two- and three-wheel electric vehicles, as referred to in paragraphs 1.9, 1.10 and 1.15.

13 *Blume Ventures closes its Fourth Fund at upwards of $250 million to back visionary tech founders*, Blume Newsroom, 7 December 2022, link.

1.26 The response to this recommendation is therefore inadequate.

Recommendation 5: The UK should look for opportunities to support coalitions of Indian research institutions and non-governmental organisations working on social issues, in support of the UK India Country Plan goal of championing open societies and democratic standards.

1.27 ICAI's review noted India's decline on global indices of democracy and human rights and the risks this posed to the India-UK Roadmap partnership. The review found that the UK had been largely inactive in response to the closing of civic space in India and was not doing enough to build civil society coalitions and advocacy capacity in this area. FCDO accepted this recommendation and has committed to small but targeted programmes in relation to open societies and democracy in the areas of court reform, LGBT+ rights and digital media. These are important but potentially uncomfortable topics and FCDO has made some efforts to support such civic space and rights.

1.28 While FCDO's projects in this area are modest, they are well designed, in impactful areas, and include to an extent coalitions and partnerships. In the spirit of encouragement to go further in supporting civil society coalitions on human rights and civic space advocacy, we judge this an adequate response to ICAI's recommendation.

Conclusion

1.29 There have been many improvements in response to ICAI's review and recommendations, although some of these will need further development. FCDO has taken steps to direct its aid portfolio towards poverty reduction, but its draft theory of change needs further work, and in particular stronger evidence on how ODA-funded interventions can contribute to inclusive growth and address persistent 'pockets of poverty' in India. Some modest FCDO projects in support of civil society groups are well designed and impactful. There are some stronger links between UK-funded research and investments made by British International Investment (BII), and significant improvements in BII's interventions to mobilise private finance.

1.30 BII's new India country strategy published in July 2023 has convincing links to poverty reduction and a greater focus on inclusion but does not yet seem to be shaping investments. BII's India Quotient Fund IV investment in particular has raised significant concerns which clearly warrant following up by ICAI.

Independent Commission for Aid Impact

This document can be downloaded from www.icai.independent.gov.uk.
For information about this report or general enquiries about ICAI and its work please contact:

Independent Commission for Aid Impact
Gwydyr House
26 Whitehall
London SW1A 2NP

icai-enquiries@icai.independent.gov.uk

@ICAI_UK

icai.independent.gov.uk