HOUSE OF COMMONS

International Development Committee

Oral evidence: Investment for development: The UK's strategy towards Development Finance Institutions, HC 884

Tuesday 25 April 2023

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[Watch the meeting]

Members present: Sarah Champion (Chair); Nigel Mills; David Mundell.

Questions 148 - 261

Witnesses

I: Diana Layfield, Chair, British International Investment; Nick O'Donohoe CMG, Chief Executive Officer, British International Investment.

Examination of witnesses

Witnesses: Diana Layfield and Nick O'Donohoe.

Chair: I would like to bring this session of the International Development Committee's inquiry into the British International Investment organisation to a start. We are very lucky to have both the chair and the chief executive officer in front of us today. Thank you so much for making the time. Could I ask you both to introduce yourselves?

Diana Layfield: I am Diana Layfield, chair of British International Investment.

Nick O'Donohoe: I am Nick O'Donohoe, the chief executive of British International Investment.

Q148 **Chair:** The first questions are from me and are about trying to get the broader vision of BII. Nick, I will start with you. What is BII's philosophy of development?

Nick O'Donohoe: BII is the UK's development finance institution. Like all development finance institutions around the world, the basic theory of change that underlies development finance is that countries cannot emerge from poverty without a prospering and successful private sector. The role of development finance institutions is to provide capital to companies to help those companies grow so that, as they grow, they can create jobs and they can pay taxes, which in turn allow Governments to provide health, education and other social goods. That is the broad theory of change in development finance.

Q149 **Chair:** I understand how that works when we have the complete package of development in place, but the development budget has been hollowed out both by policy decisions and choices about where the money is being spent. For example, a lot of it is being spent on refugees in the UK at the moment.

There is probably more pressure on you for this second part of the question: how do you make sure your investments target the poorest people in the world?

Nick O'Donohoe: With every investment we make, our objective is to maximise development impact and, at the same time, ensure we have as high a likelihood as possible of returning capital. That is our basic mandate. In order to do that, we allocate our assets based on assessments of impact, risk and return. We allocate it across three different sector groups: infrastructure, financial services and our broad industries group. Those teams go out into our eligible geographies and they try to find investments that match those criteria.

At the same time, we have broad strategic objectives, which are set in our five-year strategic plan that we have agreed with FCDO. Some of them are specific objectives; some of them are things that we monitor.

We are broadly monitoring things such as ensuring that 60%, more or less, of our money is in Africa. We are monitoring that we have over 50% of our investments in fragile states, and that 15% to 20% is in catalyst and 30% is in climate. There is a whole list of different things. If we think we are out of line and if we think we are not going where we could have the biggest impact or that things are missing, we make changes.

I must say that Nepal, where you visited, is a good example of that. Nepal is a very poor country. It is a country where development finance could make a significant difference. Four or five years ago, we had no investments in Nepal. What did we do? We hired Rabi, who you met when you were in Kathmandu, and we focused more of our investment team's time in going to Nepal. As a result of that, as you saw, we now have a portfolio of $100 million, which we are very proud of. That is an example of how we take a broad asset allocation process and translate it into very specific focuses on individual countries.

Q150 **Chair:** Can I pull you back? You mentioned "eligible geographies". I think you said that 60% was going to Africa and 50% was going to fragile states. How do you make those percentage decisions? Is that something that FCDO tells you? Why do you put the weighting where you put it?

Nick O'Donohoe: I talked about some of the very specific targets we have: the 30% climate target is a very specific target. Some of our targets or ambitions are more things that we monitor.

If you look at our five-year strategy, you will see reference to the importance of Africa. If you look at our existing portfolio, you will see the importance of Africa. We do not have specific country allocations, but we have broad strategic ambitions as to where our money should go. If we deviate from that, we correct it.

Q151 **Chair:** I am going to ask again. Where do those percentage targets come from? Has FCDO told you it wants 30% of the money to go to climate, or what research are you doing to make those decisions?

Nick O'Donohoe: Climate is a specific target that we have agreed with FCDO.

Q152 **Chair:** You have agreed with them or have they told you?

Diana Layfield: If I may, it depends on the target. In the case of climate finance, the 30% was a target agreed as part of our five-year strategy with FCDO. That was a collective target-building process, which led to the strategy.

Other numbers, like having broadly 50% in Africa or the fact that in 2021 60% of our investment was in fragile or conflict-affected states, are not specific targets in the sense of being externally agreed, but the board and the management team sit down to make sure we are progressively being very thoughtful about whether we are investing in the areas of highest need and whether we are—

Q153 **Chair:** What is the difference between a target and being progressively thoughtful?

Diana Layfield: A target is a very specific number. We say, "We are aiming to have 30% of our portfolio in climate investment".

Chair: That is very specific so that is a target.

Diana Layfield: That is an absolutely clear agreed target. The 50% number is not a target.

Q154 **Chair:** Do you mean the 60% for Africa that Nick said?

Nick O'Donohoe: Yes.

Diana Layfield: That is not an officially agreed target, and it may fluctuate between years depending on the size of the portfolio and where the best investments are available that we believe will have development impact. In fact, it has been broadly consistent, but it is not a target in that sense.

Nick O'Donohoe: It is something the board and the executive management team monitor. If we were to be a lot out of line with that, we would correct that. There is a distinction between targets agreed with FCDO and the broader metrics that we manage to ensure our portfolio is most efficiently deployed.

Q155 **Chair:** Taking climate aside, which seems to be an agreed target and you have agreed it is a target, the 50% or 60% to Africa is something you would like. How do you monitor it, if it is not a target? Next year you could decide that you were not going to put anything in Africa, and that would be fine.

Diana Layfield: That would be phenomenally unlikely to happen.

Q156 **Chair:** But you have no process in place to prevent that from happening.

Diana Layfield: We do have a process in place to prevent that happening. The monitoring of the portfolio is to ensure it is balanced and sensibly allocated. That is different from saying you have a precise numerical target for every period for every set of investments. From a board perspective, it is important that these investments go to the areas of highest need. Africa is clearly one of those areas.

Q157 **Chair:** How are you defining "highest need"?

Diana Layfield: It is highest need in terms of a combination of development impact and the metrics that go below that. That might be poverty alleviation or all of the other metrics that we look at, such as gender impact, within our impact scoring mechanism.

Q158 **Chair:** Earlier, Nick said impact, risk and return. Return is one of the considerations.

Diana Layfield: Return is a consideration. As we have said, we are impact-led. Impact is always the No. 1 consideration.

Q159 **Chair:** Does that have a percentage target to it? Do you weight impact more than other considerations?

Nick O'Donohoe: The objective of BII is to maximise its development impact, subject to meeting the constraints on financial return. We have a target on financial return that we have agreed with FCDO. We need to meet that target. It is important for the whole sustainability of the development finance model that development finance institutions make a positive return. It is a constraint. We maximise development impact, subject to our financial return constraint.

Q160 **Chair:** What is the agreed return?

Nick O'Donohoe: It is 2% on the portfolio.

Q161 **Chair:** Is that year on year or over a five-year period?

Nick O'Donohoe: That is an average over a seven-year period.

Q162 **Chair:** ICAI has awarded the Government an amber/red rating for its aid spend in India, including BII's investments in India, concluding that the portfolio lacked a strong link to poverty reduction. Why does India, which is a middle-income country, receive the largest proportion of BII's investment?

Nick O'Donohoe: I want to put India in context. India is a country with 1.4 billion people. It is now the most populous country in the world. Of that 1.4 billion, probably 250 million or 300 million people live in what you would consider the consumer classes. The rest, the balance of the population, live in, by any reasonable definition, poverty. Indeed, whatever level you draw the poverty line, you will find more people living below that line in India than in all of sub-Saharan Africa combined. There is still an enormous challenge with poverty and an enormous need to encourage development in India.

Furthermore, when you look at India—ICAI made this point in its report—it probably has the furthest distance to travel in terms of a transition to a green economy. They need to build 500 gigawatts of renewable power over the next 10 years, for example. That will cost hundreds and hundreds of billions of dollars. FCDO's grant spending in India is now de minimis. The only development support the UK gives to India is through investment and principally through BII.

The other point about India is a geographical one. When you fly into Bombay, Mumbai or Bangalore, you see this enormous wealth, but, when you go to the north or the east of the country, you see a completely different country.

People talk about the vast amounts of capital going into India. That is absolutely true if you are investing in Mumbai and targeting the businesses serving the top 250 million people, but, when you go beyond that, you do not find the same level of capital. When you look at how much is required for the transition to a green economy, you do not find the same level of capital. That is broadly why we think India is still a country that merits investment from BII.

Q163 **Chair:** Is your money going to the most marginalised areas and the poorest people?

Nick O'Donohoe: In making every investment, we look at it, measure it and score it under three different criteria. The first is, broadly, productivity, which looks at the needs in the country and whether or not it is helping to provide accessible goods and services, catalyse markets and so on. The second one is sustainability: is it helping to transition the country to a greener economy? The third one is inclusion: is it really reaching more marginalised populations, either through the workforce or through the products they produce?

In India, we only look for investments that score on the sustainability vertical and the inclusion vertical. Every investment we make has to have a compelling argument that it will either help this transition or it will reach the more marginal populations in more marginal states.

Q164 **Chair:** ICAI's review highlighted an occasion when you were effectively a corporate lender to a bank. ICAI did not say, for confidentiality reasons, what that organisation was, but how does that fit on the metric that you gave us?

Nick O'Donohoe: That is ICAI's perspective. ICAI was also very complimentary about some of the work we were doing, for example in renewable energy.

Chair: You have a big portfolio. We accept that.

Nick O'Donohoe: I know the particular investment you are referring to. We initially became invested in that bank about six or seven years ago. One of the things we have to accept about this whole concept of additionality is that it is a dynamic concept, not a static one. If you asked me today whether I would make that investment again today, the answer is no, we would not, because now there are very large amounts of money available for that type of bank. At the time, this was a private bank that had real ambitions to grow and develop in microfinance and in lending to small and medium-sized enterprises, and it was difficult at that time for Indian banks to attract capital.

Like I said, we would not do it today, but additionality does change. It changes in both directions, by the way. If you look at Sri Lanka, for example, three or four years ago we would never have gone to Sri Lanka to look at investments. Today, if we were to do investments in Sri Lanka, it would be enormously additional. It is complicated.

We do have some challenges. ICAI has been enormously helpful to BII over my time at the organisation in terms of helping us to improve, but they have to look at the portfolio and they will sometimes look at investments that are from six, seven or eight years ago. One of the things we like to think about BII is that we are a learning organisation. We are changing. If you look at the way we invest in banks, funds, energy companies and power, you will see that all of these things have changed over the last six, seven or eight years. I accept the criticism in the ICAI report, but as I said, our pushback would probably be that it does not necessarily reflect what our investment approach would be today.

Q165 **Nigel Mills:** Which bank was that?

Nick O'Donohoe: I thought it was in the report. I am happy to tell you that it was RBL Bank. I do not think there is any reason why I should not share that.

Q166 **Chair:** You say that these investments are dynamic rather than static, but without fixed, clear and transparent targets, is your process also subjective? How do you remove that subjectivity around what you invest in from the system when you have countered that you do not have these clear targets?

Nick O'Donohoe: Investment is an art, not a science. Everybody will tell you that. If you go to the City, they will tell you that. It really is. Of course we build our financial models and we have processes that we go through, both on the financials and on impact, but ultimately it comes down to a group of people sitting around a table in an investment committee making a judgment as to whether this is the right thing to do and whether a company will perform in the way we hope it will perform. There is always going to be subjectivity.

Q167 **Chair:** I get that, but when it is taxpayers' money, should there not be a bit more science and a bit less subjectivity, or at least a bit more transparency?

Diana Layfield: Over time we have sought to be more and more rigorous and scientific in how we do that. Previously, before the current impact scoring system, impact was much more subjective. All of our fellow DFIs followed broadly the same model, which was to say, "Do we feel like it is additional?" Actually most of those judgments were right for both BII, CDC as was, and most of our fellow DFIs.

We felt it needed another level of rigour and another level of science. A good couple of years went into building that impact scoring framework, working with academics and other members of the development community. It is not perfectly scientific now—you cannot measure milligrams of impact—but we look very numerically at who is going to be affected, the number of people, what we think the impact is going to be, both financially and in terms of the number of people touched, and what we expect the amplification of that to look like. We also now go back and measure that one year on, two years on and so forth, to see whether that investment case is proven.

One of the things I am most proud of about BII—Nick referred to this—is that it is a learning institution. Every year, the institution tries to do things better than the previous year. We are constantly trying to review and upgrade our processes and systems. The impact scoring framework is a very good example of something that was previously almost entirely subjective but is now not only vastly more objective but also more consistent across investments. That has been called out by the commission.

Q168 **David Mundell:** Are you confident that it is a fair system? Wherever they are used, scoring systems can sometimes benefit certain criteria. Just listening to what you are saying, is this not a system that benefits a country like India, for the reasons Mr O'Donohoe set out, whereas other poorer, more fragile or more chaotic countries struggle vis-à-vis those criteria?

Diana Layfield: It is a great question. Actually, the reverse is true at the moment. The scoring system is one that would favour more fragile and vulnerable economies. It is set up that way.

To your broader question, is it fair? Our experience is that it is working well and it is fair. Is it perfect? They are never perfect, and one of the things we will do on the two-year anniversary is go back and review all of the criteria. We will engage our peers and FCDO in that as well, and see whether there are areas where we can improve as part of that continuous improvement.

Q169 **David Mundell:** What happens when you cannot find an investment that can meet these criteria? Do you go back to FCDO and say, "We have looked right across all these fragile countries in sub-Saharan Africa and we cannot find an investment"? Are there other interventions? There must be other interventions that could make it more likely that an investment would be possible. What do you do if you cannot find an investment and it is clear that there is a geographical imbalance in your investment?

Nick O'Donohoe: There are some cases where we will go and explain to FCDO that it is extremely difficult to find investments. I will give you a couple of examples.

The first is northern Nigeria, as a region. We would love to invest more money in northern Nigeria, but the reality is that, particularly because of the security situation there, we cannot even go there to see—we cannot even go in to diligence investments, and even if we were to find them, we could not find people who would be prepared to go and manage them. For all of FCDO's legitimate enthusiasm for investing in northern Nigeria, we have to say, "That is not really somewhere we can go." Of course, there is huge need there, but it is better served through, hopefully, grants or other mechanisms.

Another example, which I mention because it is a very topical one, is Sudan. We had invested nothing in Sudan for certainly well over a decade, probably two decades. When we looked at it a couple of years ago, it was clear that it appeared to be moving in a positive direction. We sent people there; we made an effort to try to find some way of deploying capital. In the end, we identified a company—a large company in the Sudanese context—that is responsible for importing wheat into Sudan, where food security is a huge issue. We made a $50 million loan to them in February of this year. On one hand, that is a success, because the import of wheat and food into that country is a critical area, but here we are, two months later, looking at this and asking, "Did we do the right thing?"

We are constantly rebalancing the need and desire to put impact first and have the maximum development impact versus the need to be prudent with UK taxpayers' money.

Q170 **Chair:** We have just had a debate on famine and food scarcity in east Africa. I have to say that seems like a good investment to me.

You spoke about how you might not make today the investments you made six years ago because of various different reasons. How do you score the impact and legacy of investments?

Nick O'Donohoe: One of the great beauties of the new impact scoring system is that, unlike the previous system, which was static and really just looked at the location of the investment and the sector it was in, this one is more complex. There is more judgment involved in terms of the degree to which the investment is reaching excluded populations, helping with sustainability and helping improve access to goods and services.

It gets a score going in and, because we have a score going in, we can go back two years afterwards, as Diana mentioned, and look at the score two years on, to see whether or not it has met our expectations. This is the second year of using this system. At the end of this year we will be able to look back on the first group of investments. From our perspective, that is really exciting. As you mentioned, there is always a degree of subjectivity in models, but it does at least give us something tangible to look at and to evaluate ourselves against.

Q171 **Chair:** Diana, do FCDO and BII share the same values?

Diana Layfield: I believe we both have the same set of objectives when it comes to development. The parts of FCDO that focus on development are clearly very concerned about development.

Q172 **Chair:** Objectives are different to values, though, are they not?

Diana Layfield: The FCDO's values are presumably determined. They are not published, at least as far as I am aware. Our values are fairly transparent to everyone. We are an impact-focused development finance organisation. Nick has outlined what those values mean to us. I have certainly not seen or witnessed any clash in values or any disagreement around values at all.

Q173 **Chair:** How does FCDO's development strategy relate to BII's investment strategy? How do you communicate any changes that you might be having, or how do they communicate to you any changes they might be having, that could impact the other?

Diana Layfield: There is the broader national strategy that was published. We also published the BII five-year strategy. We worked on that, together with FCDO, intensively over a one-year period. Much of that groundwork was laid over a two-year period. That strategy was built collaboratively. It is a five-year strategy that covers the longer-term goal-setting targets like the 30% climate target and the key priorities in the overall strategic direction. Within that strategy, we set the goals, the objectives and the parameters for the five-year period.

Q174 **Chair:** I know your organisation is very clear and very protective of the arm's-length relationship you have with FCDO. How do you maintain that?

Diana Layfield: There is a difference between operational independence and having the right level of oversight, scrutiny and transparency. The level of oversight the FCDO has is very clear. First of all, it is responsible for setting, together with us, that five-year strategic direction. There are relatively few circumstances in which I would imagine that would change meaningfully. That is set very clearly. The goalposts are laid out at the start.

From the point of view of within-period oversight, there are a number of different dimensions. First of all, FCDO has very clear engagement with the board. It is responsible for directly appointing three of the board members, the chair and two non-execs, but it also has the right to reaffirm or remove all of the directors of BII on an annual basis.

From a governance perspective, we have a series of meetings at different levels. There is a meeting with the Secretary of State a minimum of once a year; there are quarterly meetings with the Minister for Development; and there are weekly or often daily meetings with members of the FCDO team, both in London and in markets.

Just to give you some sense of communication, that is a constant set of communications with FCDO across all levels of FCDO and BII. Just as an example, we received 19,000 emails from FCDO in 2022. That is a pretty high level of engagement.

At a more numerical level, we have a quarterly detailed review of performance, where FCDO reviews both our impact metrics and the financial performance metrics. FCDO also has access to the pipeline and a regular portfolio report.

Q175 **Chair:** Were they involved in the development of the impact metrics?

Diana Layfield: They were fully aware of them and gave input to them, yes.

Nick O'Donohoe: Yes, the work was led by people in BII, but they was actively involved, particularly because these are development impact metrics. FCDO, and formerly DFID, has vast experience in development. You would expect that we would be very engaged with them at every level to develop those, and we were.

Q176 **Chair:** In Nepal, we witnessed BII working incredibly closely with embassy staff, to the point that it was sometimes difficult to know which was which and who was leading who. We felt that that led to some very sensible decisions in a climate of limited funding, and it also presented the UK as operating as one entity. One of the arguments for the merger was that there were all these different doors that people had to go through. We were told that this is not normal, however, and in fact there has been quite hard pushback when I have said that this is a fantastic way of working. It was said to me that the two organisations ought to have complete independence. I wonder what your thoughts on that are.

Diana Layfield: First of all, it is absolutely incumbent on us collectively, both BII and FCDO, to create the optimum outcome for the UK and the UK taxpayer. There are a number of ways in which, over recent years, we have tried to bring those closer together and into better alignment.

The alignment of strategies is one of them. The alignment of discussions and staff, through things like British investment partnerships, is another. Where we can partner with other organisations like PIDG and other BIPs to deliver the best in a UK funding sense, we will absolutely do that.

Particularly in smaller countries and countries with a much higher development need, there is a very high level of closeness at the embassy level. In larger countries, it is probably a little bit different because the complexity of relationship is different.

Q177 **Chair:** Does it have something to do with how new your investment is in Nepal? You were saying that you would not do some of the things you did six years ago. Given that this is a relatively recent project for you, is this your preferred way of working going forward?

Nick O'Donohoe: It mostly has to do with us having people on the ground. That is what really brings us much closer to FCDO.

It is fair to say that we were very pleased when the Committee chose to go to Nepal. One of the reasons we were very pleased you chose to go to Nepal was that we do think, as a project, it really reflects the most recent five-year strategy. We had nothing five years ago. Everything we have done has been in the last five years, and we feel very good about everything we have done there.

It is not a function of the newness of the strategy; it is more a function of who the people are on the ground. As Diana said, in bigger countries it is more complex. Nigeria and India are both examples of countries where our offices are in different cities from the capital; Pakistan is another one. That can make a bit of a difference. That closeness is mostly a function of the seamlessness that comes from being in close proximity to each other. In Kathmandu you see that very clearly.

Q178 **Chair:** Would it be your preferred model to have that closeness going forward?

Nick O'Donohoe: There is a balance. We aspire to have a seamless relationship with FCDO. At any point in time, FCDO should certainly know what our broad strategy is in a country—that should be agreed with them—and it should also know what projects we are working on. FCDO can be enormously helpful, frankly, both in steering us to interesting projects as well as helping us better understand them as we diligence them.

At the same time—I have said this to the Committee before, and it still holds true—at no time in my six years as chief executive of BII have I ever been given instructions by FCDO as to what to invest in or what to divest from. That degree of independence continues to be very important. You want to be seamless, but you also want, particularly for specific investment decisions, to be independent.

Q179 **Chair:** Diana, has BII worked with other players in British investment partnerships to mobilise Government and private sector investment in low and middle-income countries?

Diana Layfield: We have definitely worked with other parts of British investment partnerships, particularly more recently with PIDG.

Q180 **Chair:** Specifically, have you worked to mobilise investment?

Diana Layfield: Did you say investment in lower-income countries?

Chair: Low and middle-income countries.

Nick O'Donohoe: Have we worked together with other BIPs? Yes, we have worked with PIDG, certainly. If you look at our solar project in Cuamba in Mozambique, for example, that was a transaction they were intimately involved in and we were intimately involved in. We did that together, effectively, through Globeleq. That is an example.

The other big part of British investment partnerships is UK Export Finance. We know UK Export Finance very well. I have quarterly calls with the chief executive. It is fair to say that we work in slightly different verticals. Its role is to provide funding to UK companies to support exports and create jobs in the UK whereas our function is more to provide funding to companies located in the markets in which we invest in order to create jobs in those markets. We have a lot to talk about but less to do together.

Q181 **Chair:** Have you ever had to push back on any recommendations or suggestions they have made for investment?

Nick O'Donohoe: No, we would not be involved at all in any of the investment decisions made by UKEF or PIDG. We might jointly invest together with PIDG, but we would make our decision separately.

Q182 **David Mundell:** If there was an FCDO director on the board, would the other directors be able to stand up to them? Would they just be entirely compliant with that person's wishes and requests?

Diana Layfield: That is an interesting question. What would that individual bring that would be additive? As we have mentioned, we have a very close relationship with FCDO anyway. It is responsible for the appointment of three directors.

Q183 **Chair:** FCDO could definitely bring oversight, and it might cut down on some of the emails.

Diana Layfield: That is an attractive prospect.

Q184 **David Mundell:** Making an appointment is different. It is different from someone from the FCDO being part of the board. The pitch about not doing that seems to be that, if there were such a person, BII would become entirely compliant with the wishes and requests of that person. If there has been a good appointment system for the other directors, surely they would not.

Diana Layfield: There are a couple of different things to take into consideration when thinking about that. That is one: would they overwhelm the board? Separate from that, though, one of the very valuable things about the board at the moment is that every board member, particularly the three appointed ones, feels the need to represent both the shareholder and the British taxpayer and ensure the right outcomes are reached. You would give a different chemistry to the board if one person said, "That is my responsibility, and therefore that is my primary focus." You would potentially dilute some of the focus of the rest of the board, which might not be particularly helpful.

The value in the model we have at the moment is the FCDO team can look, together with the chair and the rest of the board, and say, "What are the skills we would most like to see on the board? In which areas do we need more technical expertise?"

Q185 **Chair:** Why could they not do that if they had a board member?

Diana Layfield: It is not that it would stop them, but it would be occupying a position that you could use more valuably.

Q186 **David Mundell:** Expertise in foreign and development affairs might be something that would add value to your board. FCDO would be the organisation best placed to provide that. As Mr O'Donohoe has already told us, this is a very changing environment.

Diana Layfield: It is an interesting question. As I say, if we had multiple shareholders and multiple people involved, a very clear single representative of FCDO would be helpful. The depth of relationship we have with FCDO at all levels and the frequency of that engagement means, frankly, that it has that level of engagement and more. It is very involved, frankly even beyond board level.

It is not that I think there is something shocking about it; it is just that I do not see the clear rationale for having it, given that level of input is provided very frequently. I would say it is almost on a daily basis.

Q187 **David Mundell:** Could it be an impediment to your activities?

Diana Layfield: No, I do not think it would be a huge question. Other members of the board might feel slightly more restricted. For example, we have members of the board who are residents of some of the countries in which we invest. They might perhaps find it slightly less comfortable putting the case for Africa, for example, if there was someone they felt was taking a very clear political or politicised view. That might impact it.

The other question is about the fact that we are making investments that have a very long timeframe. We are looking at durations of 10 years or more. I appreciate that the FCDO has a level of objectivity—I am not suggesting it would not—but would that be affected by policy in a very short-term sense? That is the other question I would have.

Q188 **David Mundell:** We could have a change of Government next year, and that Government might decide, "We are not going to have BII at all".

Diana Layfield: Yes. That is true, but that is different from getting involved in practical operational realities around investment decisions. That is the point Nick was making about the difference between strategic direction being set and operational decisions. The board does get involved in larger investment decisions, some operational decisions, and the day-to-day of how the board guides the business. That is a different step.

Q189 **Chair:** I have one final question. What happens if you do not stick to the strategy you have agreed with FCDO?

Diana Layfield: Do we have the ability to diverge from it? Given the regularity of the engagement, it would not happen because you cannot drift off meaningfully without it being very visible. If there were some fundamental reason for departing from that, if there was a decision, driven perhaps by geopolitical conflict, that a certain area had become un-investable, we would sit down together and discuss whether that was the case.

Q190 **Nigel Mills:** Diana, you just talked about having multiple shareholders"

Would you like to have multiple shareholders? Is there any advantage to having some banks or other groups owning you, rather than it just being the Government?

Diana Layfield: There are DFIs that have multiple shareholders.

Nick O'Donohoe: The FMO has testified to the Committee.

Diana Layfield: It is a model that some DFIs follow. The model we have at the moment works well. As Nick has indicated, there is an alignment with the national interest but not one at the level of operational investment decisions. The model seems to be working well. I do not see any immediate reason for changing it. There are other ways of—

Q191 **Chair:** For whom does it work well?

Diana Layfield: I hope it works well for the taxpayer in terms of accountability and the ability to combine a broad alignment with national objectives with a deep focus on development and professionally driven investment decisions.

Q192 **Nigel Mills:** Moving on slightly, there is no dispute that we welcome the fact that the UK has a DFI; the work you do has potential to be hugely important. The question we have is whether it is right that we scale it up at quite the scale we are planning to do. If you are performing well, making positive returns and being self-sustaining, do you need all the extra money that is going to take away from other aid priorities? Is that really a sensible way for the UK to achieve the most impact?

Diana Layfield: I will just give a couple of answers to that, and then Nick may want to pick up some more. The first is about the scale of funding. In one year, the BII allocation rose to 6.6% of ODA. In most cases, it is at or below 4%. In several years it has been around 2% or 3%, but BII's share of ODA allocation has been roughly constant since 2015 at just under 4% on average. The first thing to understand is that this leaves 96% of that funding to be deployed in other things. I just want to be clear that it is not as though BII is overwhelming this budget. It is up to FCDO and others to decide how that should be allocated.

For the money we do have, we have developed a strategy based around an expected funding level. It is always possible to shrink things and to change things. It is about being conscious of what that impact would be and weighing that up against other alternatives.

We see huge potential to effect transformational change in the economies of some of the most fragile and poorest states and to have a real impact. We can do less of that and you can do more of something else, and that is for others to determine. All we can say is that we do not see any shortage of positive projects.

The geographic expansion is essentially climate-focused. We understand the importance of climate and climate change in the world at large, and the impact that is likely to have on the poorest and most vulnerable populations around the world. We could dial that back, if there were a shortage of funding, but it would have a clear impact on that programme.

Nick O'Donohoe: I agree with everything Diana has said. Roughly 97% of ODA spending goes somewhere else. There has traditionally always been a requirement for some ODA spending to be invested rather than given away in grants. We are the principal investment vehicle for that money, and we do a good job of that.

Of course, it is possible to provide further capital, but, as Diana said, in that circumstance BII would be a lot smaller, less effective and would take less risk, frankly. We would not have put any money into Sudan, if we had been given a lot less money. We would be doing a lot less on climate. In some respects, we would be going back to where we were in 2012.

We have grown over the last 10 years. There are now four major European development finance institutions that are roughly the same size, and we are one of them. That gives us a leadership position within this part of the development community. A lot of those things would be lost. The organisation has been around for 75 years. I am sure it will continue to be around, but I think it would be the wrong decision.

Q193 **Nigel Mills:** It is intriguing that you tell us you focus on impact and not return, and yet, as soon as we get on to whether you should have less money, you immediately say, "We would not have invested in Sudan". Presumably, that means that is the investment that has the least impact. It is a strange example to throw up given this week's events.

Nick O'Donohoe: I used that example in context. If you have less money, you have less margin for error. If you have less margin for error, you take less risk and you move away from the riskiest investments. I used Sudan as an example, because, even though we did not realise at the time just how risky it was going to turn out to be, if I am honest, we knew it was risky.

Q194 **Nigel Mills:** That is different. When you say, "We look for where there is the most impact, and then check we can make a positive return. That is what we do," that is very different from saying, "That is a bit too risky. We will move somewhere where we can take less risk". That seems to suggest that impact is not your main driver.

Diana Layfield: Nick was really highlighting is that, in a world where capital preservation becomes much more important because there is no available funding, you have to be more cautious about capital preservation. Otherwise you simply erode the capital base.

I certainly do not imagine there would be a fundamental shift. As I mentioned, the impact is also likely to be significantly more on the climate side. It is a choice. I do understand where you are coming from, but it is just about how important it is to be financial return-focused in terms of capital preservation, if that becomes a larger priority.

Q195 **Nigel Mills:** Given that there are so many good projects that can make a positive return and you have a solid existing portfolio, have you ever been tempted by the suggestion that you could issue debt on the market and use that to fund the projects you identify? Is that a model you would be tempted by? We were told that could raise £8 billion for you. That would be transformational.

Nick O'Donohoe: I heard that discussion. It is not the first time that has been suggested. Clearly, most development finance institutions in the world do have debt on their balance sheet. BII is quite unique—Scandinavia is probably similar to us—in being 100% equity-funded. We think that is a good position to be in because we can tolerate more volatility in our returns and we can take more risk.

Clearly, if you want to mobilise more capital into the projects that we see all the time, in all the geographies we are investing in, leveraging our balance sheet would be one option. I am sure that banks and financial entities would lend to us. I do not think they would lend us £8 billion, to be quite honest, but they would certainly lend to us.

That is not a decision for us, though. That is a decision for the Treasury. As you know, the Treasury has always taken, I think correctly, a very conservative approach to allowing other arm's-length organisations to use the UK's credit rating. It certainly is an option. As I say, if you look around the world, the Germans, the French and the Dutch all have leverage.

Q196 **Nigel Mills:** Your independence does not stretch quite that far.

Nick O'Donohoe: Yes, exactly. You are absolutely right. It does not stretch to that. We cannot go out and unilaterally decide that we want to borrow money.

Q197 **Nigel Mills:** Do you ever pay dividends back to the FCDO to supplement the aid budget, or is it all one-way traffic?

Diana Layfield: To the extent that the amount allocated per year is selected by the Government, it is more financially efficient for them to decide what they want us to be funded with rather than to give us money and then have BII return it.

Q198 **Nigel Mills:** Can we move on to the use of intermediaries? There is some concern about why you feel you need to use intermediaries and why you cannot just do more of it yourselves. How much does that cost? What are the risks of having less control? What is the rationale for it?

Diana Layfield: First of all, I should say that the DFI community around the world works with intermediaries for some very good reasons. There are two broad types of intermediaries we work with, funds and banks.

Chair: Diana, we are quite pushed for time.

Diana Layfield: Essentially, we talked a bit about reaching the poorest in some of the most fragile communities around the world. We are already ahead of almost all other DFIs in having people in country and having an overseas presence. The presence level we would need to be able to make smaller investments to needier communities in countries in those states would be very high. We do not yet have the expertise to do that.

If we want to maintain a sensible cost base and still make those investments, we need to work with intermediaries. They can get money to where it is needed with much greater on-the-ground presence and much greater local knowledge than we can. There is also benefit in terms of building expertise locally.

Q199 **Nigel Mills:** Do you know off the top of your head how much you give in fees to these intermediaries each year?

Nick O'Donohoe: As Diana said, there are two different types of intermediaries. We do not pay fees to banks, so that is a zero. On the other side, we do invest through funds, as you know. Last year, in 2022, we paid £39 million in fees to funds. That is about 1.9% of the net asset value of our assets and about 1.1% of our total exposure—total exposure would include future commitments as well. That is consistent with the typical management fees that everybody pays for private assets. You do not pay a separate bill for management of the funds. It is embedded in the overall return you get.

Q200 **Nigel Mills:** There is some suggestion that some of your employees end up being your fund managers. Is that something that happens?

Nick O'Donohoe: Do our employees end up being our fund managers? That has only ever happened with Actis, effectively. When CDC was split and recreated in 2014, the Government allowed the creation of Actis. They took all our portfolio at the time and most of our employees. That is the only time. We have a small project in India where a former employee is supervising some of the Indian funds, but that is not common.

Q201 **Nigel Mills:** How much control do you end up having in the way your money gets invested when you are using intermediaries? Is that governed by a contract? Do they have to come back and get everything signed off by you, or is there some discretion?

Nick O'Donohoe: That is a very fair question. As Diana said, this does just apply to us as a DFI. If you ask the NGOs about how they operate in some of the markets, they will tell you about using various forms of intermediaries. When you use any intermediary, you lose some element of control.

For us, there are two ways of ensuring control. One is through the due diligence that we do before we go into an investment, making sure that, from an environmental, social, governance and business integrity perspective, the fund managers are aligned with us. We do an extensive amount of training of fund managers. Last year we trained 750 fund managers in our markets on ESG standards. That is an example of what Diana mentioned about raising standards in other countries. We do that.

We have specific exclusions we impose on them. At one of your previous Committee hearings you heard from Stuart from Phatisa, who talked about signing a 50-page side letter.

Chair: We have that on record.

Nick O'Donohoe: That is how we do the due diligence. Once we have made the investment, there is quarterly reporting, regular follow-up and ongoing monitoring. There is reporting every time they make a specific investment. Every time there is a safeguarding issue, there is a required reporting with any of the investee companies.

Q202 **Nigel Mills:** There is ongoing reporting every time they make a specific investment. Is every investment signed off by you before the money gets committed to it?

Nick O'Donohoe: No. The basis upon which we are hiring intermediaries to run a fund for us is that they have discretion over the investment portfolio. That is why we spend so much time beforehand ensuring there is alignment between the type of companies we want to see them investing in and what they actually invest in and the standards they set. No, they are not coming to us and saying, "Can we do this? Can we not do that?"

Q203 **Nigel Mills:** The FCDO sends you 19,000 emails a year. How many emails do you send out to these intermediaries? Is it a similar level?

Nick O'Donohoe: There is a huge amount of correspondence. We do not count those emails.

Q204 **Nigel Mills:** You just count the emails from the FCDO. Can you talk us through what happened with the investment, which sounds a bit odd, in Nu Cosmetic Clinic in India? It does not seem like the sort of thing that is going to have a lot of impact.

Nick O'Donohoe: I am trying to remember. I am not sure.

Chair: It was an investment made through the intermediary fund APF-I (Mauritius) Ltd.

Nick O'Donohoe: I will have to get back to you on that. I am not sure.

Nigel Mills: I do not know what is in your contract. Cosmetic clinics would not—

Nick O'Donohoe: No, they would not be in it. There was a case that was raised in the press a couple of years ago, but I thought it was in Brazil rather than India; maybe I am wrong.

Q205 **Chair:** All references to it were removed from your website this March. If you are able to find us details, we would be grateful.

Nick O'Donohoe: Yes, I will have to come back to you with details.

Q206 **Nigel Mills:** It is a bit strange that you have managed to make an investment in a cosmetic clinic, put it on your website and take it off, and you just do not have any recollection of it.

Nick O'Donohoe: We have 1,200 different investments in 1,200 companies.

Q207 **Nigel Mills:** I know, but I suspect there are not many in cosmetic clinics. It is amazing that it has come to our attention but not yours, is it not? There we go.

Can I ask you about low-tax jurisdictions? I know some of these intermediaries do not end up being in the most difficult parts of the world that you say you need help to invest in; they are based in really quite nice places. Is there a particular reason why Chinese investments are held via the Cayman Islands or Congo investments are held by Mauritius?

Nick O'Donohoe: We should not confuse where the fund manager is located with where the fund itself is domiciled from a legal perspective. The fund manager may well be located in Kenya, Nigeria or anywhere else, but most African private equity funds are located in Mauritius. For any commingled vehicle, you are always going to have a jurisdiction that is acceptable to all the participants in that commingled vehicle. It is not just us investing. Typically, we are investing alongside other DFIs and so on.

Mauritius is a jurisdiction with strong governance rules around the creation of funds, and as a guardian of UK taxpayers' money, we need to make sure our funds are domiciled in jurisdictions that have that strong governance. That is why some of our funds are domiciled there. As I say, it is generally standard practice. Certainly, Mauritius has the largest market share of domiciled funds.

We have recently been working with Rwanda, for example, to help them create an international financial centre so they can compete.

Q208 **Nigel Mills:** I have one final question. I get your point that you cannot have people in every country. When you opened a regional office, why did you choose Singapore rather than the Philippines, Laos or Vietnam, where you could be on the ground and be closer to what is happening? All those countries are pretty stable and they have pretty good internet and things. You would be perfectly able to have a base in any of those other countries.

Nick O'Donohoe: Yes, that is a very fair question. We chose Singapore because it is the financial hub for south-east Asia. Part of why we opened there was to get closer to south-east Asia. As you know, that was an addition to our investment policy at the beginning of the last strategy period.

Importantly, the other reason why we decided to go to Singapore first was because one of our key challenges is to mobilise other pools of capital alongside us. Those pools are located in Singapore. When you look at the large sovereign wealth funds, for example, they are located there.

One of the great objectives of the development finance community more broadly is to mobilise more capital. It gives us a chance to be closer to those pools of capital. The three key potential markets for us in south-east Asia are in Vietnam, Indonesia and the Philippines. As we build out our investment portfolio there, it may well make sense to open offices in those places as well.

Q209 **Chair:** While we are on intermediaries, how many of your intermediaries, your fund managers, are ex-BII or ex-CDC employees?

Nick O'Donohoe: I understood your earlier question to be about how many organisations we have seeded with employees and with assets.

Q210 **Chair:** No, I mean the actual people. Could you let us know?

Nick O'Donohoe: Our investment employees will change jobs. We have a normal attrition rate. Because investment management is typically what they do, some of them will go to work in—

Q211 **Chair:** Is it possible that you could write to us with that?

Diana Layfield: Yes.

Nick O'Donohoe: I am not sure how easy it will be to get that. It depends on what period of time.

Q212 **Chair:** We can give you all of that. We will write to you with a more specific question, if you could answer it. Part of my concern is that, particularly in some countries, the power and influence these intermediaries have is quite intense. How do you avoid them becoming gatekeepers or little princes in these places?

Nick O'Donohoe: What do you mean when you talk about the power they have?

Q213 **Chair:** You are giving them discretion on what to fund and what not to fund. You are giving them a lot of cash and a lot of rein, which could lead to all sorts of complications and compromises. How do you avoid that happening? Basically, if you are mates with them, you will get the money; if you are not, you might not.

Nick O'Donohoe: These are commercial—

Q214 **Chair:** My concern is when it comes to bizarre investments, like cosmetic clinics, you wonder how that has actually happened.

Diana Layfield: I understand the concern. There are two dimensions here. One is around process. Nick has outlined a pretty disciplined process, which is becoming increasingly disciplined by the year, in terms of how we manage our relationships with the funds and what kind of guidance we give them.

Q215 **Chair:** If they are ex-employees, you have quite a personal relationship with them to begin with, so you can see them getting a little bit more flexibility than maybe if they were someone completely independent from you.

Diana Layfield: I understand the question. I also understand Nick's point about it being hard to verify each last person, but I think we can give you a good answer on that. I suspect the answer will be smaller than you think it is.

Chair: That would be great. Thank you very much .

Q216 **David Mundell:** To follow up on that, how aware are you of what the relationship is with other countries' investment vehicles? I was quite interested to find in Nepal that the international investment community worked much more collaboratively than I might have thought. Following on from the Chair's point, as an intermediary, if you are bringing together different investment vehicles, that is giving you quite a powerful position.

Diana Layfield: You can also argue it is giving you quite a headache if you have a 50-page letter from every different institution. There is a flipside to that, in terms of the level of standards to which they are held. Any fund that is invested in by any DFI, and certainly by plural DFIs, is held to a higher set of standards than a regular private fund.

Nick O'Donohoe: Just over 50% of our investments are made in combination with at least one other development finance institution. The DFI community works very closely together. As Diana said, generally that is a good thing, because it means that, for the funds that we invest in, we effectively have a set of shareholders who are limited partners and have closely aligned objectives, particularly in terms of things like the impact they are trying to create on the environment and so forth.

Q217 **Chair:** Surely that is a bad thing. Surely the whole point of this money that you are entrusted with is the additionality. In Nepal, we saw a lot of piling in of different DFIs into investments. I can see that, when one DFI invests, it gives credibility to that organisation or that project. Why is it that 50% of your investments are alongside another DFI? Should you not be looking for the unique ones that need that credibility rather than piling in?

Nick O'Donohoe: I would say that 50% of them are not. The majority of that 50% will either be in funds, which by definition are a commingled vehicle.

Q218 **Chair:** I thought you were meant to be attracting private money, not other development money.

Nick O'Donohoe: You would like to be able do that. We work hard with the fund managers to try to help them attract private money, but in the markets that we work in, that can be very difficult.

Diana Layfield: It also depends on the stage. You will see a lot of early-stage funds or first-time funds, and the only funding they can attract is from DFIs. You need multiple DFIs because BII on its own cannot seed the entire fund. You often see in subsequent rounds and subsequent fundings that there is more commercial capital and a smaller proportion of DFI funding. You would hope that, over the evolution, as that fund becomes more successful and commercially viable, and as it proves the investment case for that market, it will then progress along that path.

Q219 **David Mundell:** I will move on to some questions about safeguarding against theft and fraud through either direct investments or the intermediated investments. What has BII written off or revalued in terms of investments due to fraud?

Nick O'Donohoe: The principal investment that has been revalued due to fraud is an investment that we made in the Abraaj fund, and specifically in their global healthcare fund. That was the one that was directly affected by the fraud. We made a commitment of $75 million to that fund, alongside people like the IFC and the Bill & Melinda Gates Foundation. As it transpired, the principal sponsor of that fund is alleged to have effectively stolen money from the funds. That case is still ongoing.

Of that $75 million commitment, $50 million is being drawn down and $5 million is being returned. The fund is now managed by another fund manager. They believe that the remaining value in the fund is about $20 million. We got back $5 million, plus $20 million, which is $25 million, versus $50 million that they drew down. That means, as things stand today—all the assets have not been liquated—we have lost $25 million.

Q220 **David Mundell:** That $25 million is relative to the $75 million you put in.

Nick O'Donohoe: It is really relative to $50 million, because $25 million was not drawn. $50 million was drawn, so $25 million out of $50 million.

Q221 **David Mundell:** That is really the limit of what you will be able to recover.

Nick O'Donohoe: Yes. We will be lucky to recover even the $25 million. That is what it is valued at today. This was an investment decision that was made in 2014, and for a number of reasons it was not a good one.

Q222 **David Mundell:** What was the due diligence that was done around that investment?

Nick O'Donohoe: I obviously was not around in 2014, but an extensive level of due diligence was done. We were alongside people like the IFC and the Bill & Melinda Gates Foundation; these are serious institutions. The piece of diligence that was not done, which should have been done and is now done in every intermediary investment that we make—we picked this up when we spent a lot of time talking about the mistakes that we made in the Abraaj fund—was better understanding the shareholders and the ownership structure of the fund itself, and how the sponsor owned the management company. That is now a fundamental part of all the due diligence we do on funds. As I said, this was seven or eight years ago, and that was missed.

I will say, in our defence—there was a good BBC documentary on this recently—Gates and BII were instrumental, alongside Proparco, in exposing this fraud.

Q223 **David Mundell:** Are there any other cases that you have that involve a fraud or mismanagement of funds that have been invested?

Nick O'Donohoe: No, nothing on anything like that scale.

Q224 **Chair:** That is a yes, but not as large.

Nick O'Donohoe: I cannot think of anything of any size; if there is, I will write to you.

Q225 **Chair:** That is the same answer. You are saying yes, there are, but not of the same scale.

Nick O'Donohoe: I cannot remember.

Chair: You cannot remember.

Nick O'Donohoe: I do not want to say no definitively. In my time as chief executive of BII, no.

Q226 **David Mundell:** I think we had some briefing on a case called Spencon.

Nick O'Donohoe: That was a fraud related to an underlying investment. Spencon is an investee, not a fund. Funds make investments in companies, and sometimes you will have cases of fraud in the company. That was not the fund.

Q227 **Chair:** It was £47.5 million of BII's money. If you could write to us on that and whether there were any other ones, we would be very grateful.

Nick O'Donohoe: We will do.

Q228 **David Mundell:** That would be helpful. Could you also set out how you account for that? You set out a context, for example, to the Abraaj situation, but understanding these issues and the context in which they have taken place is a very important part of what you do in your annual accounts and reports.

Diana Layfield: We would be very happy to do that. If it is also helpful, we can give you the context.

Chair: That would be great. Thank you very much.

Q229 **David Mundell:** I think you touched on this, Nick, in the previous answer, in relation to lessons learned from Abraaj, but what checks does BII perform on the ultimate business owner where an investee company has several layers of holding companies before you reach the ultimate business owner?

Nick O'Donohoe: We have a large business integrity group, and their job is to make sure that the people that we are partnering with, the sponsors and the owners of the businesses, are the type of people that are appropriate for us to partner with. We need to obviously understand who the beneficial owner is. We are going to go as far back as we need to go in the ownership structure to figure out who the actual beneficial owner is, because that is ultimately who our partner is going to be.

Q230 **David Mundell:** Do you look at connected companies as part of that exercise, and changes during the course of the investment?

Nick O'Donohoe: Yes. We will look at everything that in any way pertains to the ownership or the reputation of anybody that we partner with.

Q231 **Chair:** Is that ongoing scrutiny?

Nick O'Donohoe: Yes, there is ongoing monitoring of our partners.

David Mundell: What assessment do you do in relation to the tax setup of the ultimate beneficiary in terms of how it has arranged its tax affairs?

Q232 **Chair:** We are asking this because one of BII's biggest arguments is that, when you are investing in these countries, you are benefitting the country because of the tax returns. How do you make sure that there are actually proportionate tax returns rather than that they are also registered in the Cayman Islands, for example?

Nick O'Donohoe: We make sure that all the companies pay the taxes that are due.

Q233 **David Mundell:** Sorry if I did not phrase that as clearly as I might have. You are satisfied that companies are—

Nick O'Donohoe: Yes. We make absolutely sure that the companies that we invest in are paying their due.

Q234 **David Mundell:** They are not vehicles for tax.

Nick O'Donohoe: They are not vehicles for tax. Indeed, when we invest in any jurisdictions outside the country itself, they have to be in the OECD transparency group.

Q235 **David Mundell:** In the context of the wider tax affairs, in the UK the legislation allows for loss-making companies to be offset against profits elsewhere. Are those the issues that are also part of the diligence?

Nick O'Donohoe: Yes. We will always ensure that the companies that we are invested in are paying appropriate taxes in the jurisdictions in which they are located.

Q236 **David Mundell:** Moving on to investments and civil society, how does BII take into account the views and priorities of the world's poorest in its investment strategy and decision making? Is that entirely at the behest of the FCDO, or are you making your own assessments?

Diana Layfield: There are two dimensions to that. One is how we engage with civil society. The other is how they are involved in the strategy-making process. In the strategy-making process—Nick, you should comment—their input was taken as part of the process, but the ultimate decision around the strategy was taken together with FCDO. There is an ongoing engagement process between BII and civil society, where we do try to very clearly listen to their views and take their input. We invite input from them regularly, and many of them write to us with concerns that they have.

Next Tuesday we have a dinner with many of the leaders of civil society in the UK. We do that on an annual basis. In an informal setting, they very frankly share their views on what they think we are doing well and what we are not doing well. There is quite a lot of bilateral engagement with people from those organisations in addition to that.

Q237 **David Mundell:** It has been suggested that you should have an independent accountability mechanism, which would allow that process to be slightly more formal than a dinner.

Diana Layfield: It depends on what you mean by that. There are lots of different versions of independent accountability mechanisms. They are usually a vehicle for understanding grievances, concerns and complaints. We do have a very clear process for that. It is publicly stated. It is available through the website. It enables people both internally and externally to raise complaints, concerns or issues. I understand the concern about that being internal rather than external.

Q238 **Chair:** It is also the look of it, is it not? Having a dinner that is effectively funded by money that is meant to be going to the world's poorest does not seem that robust an engagement. It feels like schmoozing to me.

Diana Layfield: We do that annually, to hear from them informally. I think you would be rather unsatisfied with the quality of the dinner if you were looking at it with that critical an eye.

Q239 **Chair:** It is just not that good a look, is it?

Diana Layfield: It is to enable a time that is outside of their core working hours, to engage in general feedback. I think I was very clear that we have a lot of one-to-one engagement and team-to-team engagement during the year, where we hear from them. That is probably over a glass of water or a cup of coffee. It does not require sandwiches on all occasions.

There is a difference between the accountability mechanism, which is more about grievances and complaints than the more general feedback about direction-setting. On the complaints, we look for something that enables people to raise issues and complaints rapidly, have them addressed and have them be accountable. There is a very clear mechanism for doing that. We get a reasonable number of those complaints. They are all investigated. They are investigated through our compliance unit, which sits at arm's length from the business. That compliance team is accountable directly to the head of the audit and risk committee and the board. In that sense, it is not mingled with the management. There is a degree of independence there.

Q240 **David Mundell:** I am just looking at some specifics, which you will be aware of because they were stated in the previous evidence sessions that we have held. Oxfam has alleged human rights abuses and the detention of patients in a BII investee hospital in Kenya. What has BII done about those allegations?

Nick O'Donohoe: Oxfam raised a long list of allegations, and we did ask them to provide us with a list; they have not yet done so. On the particular case on Nairobi Women's Hospital, that is an investment that was made by the Abraaj fund, which I mentioned earlier. There was press commentary in 2017 and 2018 that there were these detentions taking place.

What action did we take? We fired Abraaj as the manager of the fund and replaced them with TPG. TPG, in turn, fired the entire management team at the Nairobi Women's Hospital. They put in place a whistleblowing mechanism in 2021, and, to my knowledge, there have been no incidents reported since then at Nairobi Women's Hospital.

Q241 **David Mundell:** I wanted to just clarify. Is the status of the Oxfam allegation that you are going to look at its allegations?

Nick O'Donohoe: No. I suspect they will provide to us a detailed list, since they are planning to publish a report, and maybe there will be detail in there. We will look into any allegations that we receive, no matter how we receive them. We have formal mechanisms, which Diana talked about, available on our website.

Q242 **Chair:** Have you reached out to Oxfam?

Nick O'Donohoe: Yes, I have met with Danny subsequently

Q243 **Chair:** You are engaging with them.

Nick O'Donohoe: Yes.

Q244 **David Mundell:** The Committee has received apparently contradictory evidence on BII's investment in NewGlobe Schools and Bridge International Academies. What investments did or does BII, or its intermediaries, have in those organisations?

Nick O'Donohoe: On Bridge, we had both a direct investment and an investment through Novastar. Our direct investment in Bridge has been sold. Novastar, which is a fund that is located in Nairobi, still has an investment on our behalf in the school.

Q245 **David Mundell:** That investment is continuing.

Nick O'Donohoe: It is continuing. We have sold our direct investment. As we have talked about before, Novastar make their own decisions as to when they are going to divest, and they have not yet divested of their position in Bridge. Because we are one of their fundholders, a small part of that accrues to us.

Q246 **David Mundell:** Have you suggested to them that it would be your preference that they did?

Nick O'Donohoe: We have expressed our concerns. Again, the context is we have 250 million children in Africa who do not go to school. We have over 20% of children in Africa who attend private school. The average state in Africa spends $80 a year on children's education, versus £6,000 or something here. FCDO's own research shows that there is strong evidence that children are better educated in private schools in Africa than in the public system. In the public system in many countries in Africa, the teachers show up two to three hours a day.

We have chosen to divest from Bridge and to withdraw from investing in K-12 private education in Africa. I personally visited the Bridge schools, and they brought innovation and technology. I personally saw a school in—

Chair: We are not calling into account the quality of the schools. We are calling into account the appropriateness of spending money designed for the poorest in public schools.

Q247 **David Mundell:** Do you not think that, if an average taxpayer was asked, they might in general be supportive of BII's activities, but that they would be surprised that BII invested in private schools and hospitals?

Nick O'Donohoe: If they saw that this was a private school that was serving and providing, by the standards of the country, a high-quality education to the poorest people in Nairobi, I think they would. If we were supporting the international school in somewhere that was for a diplomat, I would completely agree, but this was not doing that.

Q248 **David Mundell:** What proportion of BII's portfolio is independently evaluated following the initial investment? How frequently do those evaluations take place?

Nick O'Donohoe: We value our portfolio every quarter. We publish our audit financial accounts every year. Having recently been through that process, one of the things that our auditors spend the most time on is ensuring that we have correct valuations for our portfolio. At the intermediary level, at the fund level, one of our requirements is that the funds will be independently audited by reputable auditing firms. We get those valuations also every quarter.

Q249 **David Mundell:** Finally from me at this stage, to what extent is any risk to the UK Government's wider reputation considered as part of BII's ongoing monitoring?

Nick O'Donohoe: It is considered in every single investment all the time. We understand that we are representing the UK taxpayer and the UK Government in the investments that we make, and there are significant reputational risks associated with that. We are under a lot more scrutiny and much more of a spotlight than commercial investors are. That is why we spend so much time and have such a large staff looking at things like environmental, social and business integrity issues. The reputational risk is considerable.

Q250 **Chair:** I have some quickfire questions. Diana, Global Justice Now has claimed that BII is funding plants that use fossil fuels, while FCDO is spending ODA on disaster response due to extreme weather events. How do BII and FCDO co-ordinate their strategies?

Diana Layfield: The intention on all our parts is to move towards renewables and towards a green energy environment.

Q251 **Chair:** I have got that. How do you co-ordinate your strategies?

Diana Layfield: In terms of how we co-ordinate the strategy, our strategy is relatively clear. There are two dimensions to our portfolio. There is future investments and our legacy portfolio. In terms of future investments, we are very clear on the allocation to climate finance, and we are very clear that our preference is for renewables.

As we have outlined before, however, the focus for us is on a just transition. There are occasions—so far, there have only been a couple, the most significant of which was Temane in Mozambique—where it has not been possible to find an immediate and affordable renewable alternative, and we use the cleanest possible fossil fuel to effective transition. In Temane, there is a transitional plan to use gas and transition to green hydrogen. That is an infinitely better solution than the alternative, had we not been there, which would have been to build a pretty dirty fossil fuel-only plant. We were able to effect a solution that was transitional. Those are the circumstances under which any future investment would engage with fossil fuels.

Q252 **Chair:** Do you have a date for exiting fossil fuel investments yet?

Diana Layfield: I know you have raised this before, and I absolutely understand the question. There is never a preference for doing that. Just going back to the thing I have just mentioned, Temane is a great example. If we had said we are not going to do any more, that country would have ended up with a dirtier, messier solution than the one that we were able to co-fund.

Q253 **Chair:** We saw brick kilns in Nepal that have been rebuilt to be much less carbon invasive.

Diana Layfield: Yes. With our existing portfolio, if you look at a portfolio like Globeleq, we have been able to help them migrate to green energy. There are now only six fossil fuel projects within that, and 11 renewables.

Q254 **Chair:** Do you see that putting a date puts a line in the sand? It focuses people's minds. When you say "transition", transition could be 200 years, or it could be two years.

Diana Layfield: I hear you, but the problem is you will get a selection. If you are looking at value for impact for the poorest people and the most fragile economies we are trying to affect, if the alternative to us doing something that is transitional is to invest in a pure fossil fuel plant, potentially fuelled by some other Governments that we will not mention, which are very heavy on the fossil fuel front, that is not a good outcome, either for the British taxpayer or the people affected. Until we can see a situation where that definitively is not the case, and where we do not need a solution like Temane, which is transitional, I would not want us to give you a date, because I think we will end up with a worse situation than we have now.

Q255 **Chair:** Nick, in terms of criteria around exiting investments, what options does BII have to exit direct and indirect investments where the recipient business has changed their objectives?

Nick O'Donohoe: We have three different products that we invest in. We have debt. The way we exit debt is that it matures. In theory, in extreme cases, our contracts allow us to call in the debt, but that would be very much an extreme case.

In equity, you exit it through a sale to a willing partner. Sometimes that is relatively straightforward. Some of our companies that we invest in subsequently become listed on stock exchanges. We had a couple of those cases last year in India, for example. You exit through a normal stock exchange process. Most of them are private, and you have to exit through private negotiation with a willing buyer.

What is most important to us in doing that is that we have what we describe as a responsible exit. We do not to make investments in companies, spend all this time and energy improving their environmental efficiency, changing their working practices and improving health and safety, and then end up selling the company to somebody who will pull back on all the impact that we have had through our ownership of the company.

Q256 **Chair:** Thank you for the answer to that. On the listed impacts, you did not mention women and girls. I know that much has been made of the 2X scheme. You have committed that 25% of new investments will meet the gender lens. That is one of the targets for 2022 to 2026. However, Sweden is looking at 60%. Why are you not being more ambitious?

Nick O'Donohoe: In women and girls or in 2X?

Q257 **Chair:** In 2X, why are you not being more ambitious? Can you tell us about the pipeline for getting women and girls into these jobs? Can you also tell us about the quality of the jobs? If we are counting people who are the lowest paid, rather than who are sat round the top table, that is a very different piece of information.

Nick O'Donohoe: Let me start with the 2X piece. First of all, we do have an ambition to invest a minimum of 25% of our new investment commitment in investments that are 2X-qualified. That is not the same as saying that women and girls, and being gender smart, does not apply to every investment we make. It does. It is an integral part. Our gender action plans are an integral part of the environmental and social action plans in every investment that we make. They relate to everything from board memberships to how many women are represented at a management table, to how many women are represented in the workforce, the quality of those jobs, how they are treated and the products themselves. Are they making products that are gender smart? That is in every investment that we make.

We have discussed this before, but 2X is an initiative that I think those of us who were involved in the foundation of it, which is really us, the Americans and the Canadians, feel enormously proud of. There was nothing before, and then we set this organisation up that has gone from $3 billion to $6 billion to $15 billion of assets. It has now drawn in a whole lot of commercial investors. There is a need also to make sure that we are still setting high standards and a high bar. That is why having a proper accreditation process is the next step in the development of 2X.

Q258 **Chair:** I find 2X rather clunky and I do not think it sells the work that you are doing around gender equality and empowerment. Is there another way in your reporting that you could be recognising? For example, in Nepal, we saw the telecoms company that has an absolute ambition to get women engineers, but it understands it has a long way to go to encourage women to become apprentices and change that whole cultural system. That is a great thing that they are trying to do. Could you find better ways to actually celebrate what you are doing around women and girls?

Nick O'Donohoe: That is a good challenge. I am glad that you had the opportunity to see what WorldLink are doing. I could give you a whole host of other companies where we are driving that sort of change.

Q259 **Chair:** The only tool we have to scrutinise you on is 2X.

Nick O'Donohoe: Yes, I know.

Q260 **Chair:** Could I ask you to take that away?

Nick O'Donohoe: That is a good challenge, to see whether we can find another way of doing that.

Q261 **Nigel Mills:** Can I switch to the transparency of the reporting on your investments? I think the evidence we got was you were not very transparent, and you were probably a bit less transparent than some of the other DFIs. Is there more you can do to report on who you are investing in, what impacts you would like to have and what the progress is?

Diana Layfield: Can I talk about that from a board perspective? Perhaps, Nick, you can talk about the operational dimensions of that. We are very conscious of being publicly funded and accountable to the taxpayer. Transparency to them and to the development community, more broadly, is very important for us. From a board perspective, it is critical to us collectively that we are as transparent as we possibly can be.

It was very helpful to see the report from Publish What You Fund, which I think is one of the things you are referring to there. We welcome both its scrutiny and other organisations' scrutiny of this. When we read that in detail, we saw some areas, which I think Nick will touch on, that I think are critical, where we actually scored very positively on a transparency front, and there are others where we were clearly lagging behind, particularly in terms of some of the things we had displayed on our website. We have a clear remediation plan for those, which will make a difference, but you certainly have our assurance that transparency is an absolute priority from a board perspective.

Nick O'Donohoe: I agree with what Diana has said. First of all, Publish What You Fund is a very credible organisation. It is fantastic that it has taken its knowledge in transparency and extended it to DFIs. It is great we have a league table, because that is always an incentive to do better.

We were disappointed with where we ranked overall, in the middle of the pack. When you went down a level, there were certain areas that we scored more highly. In fact, in their testimony to you, they highlighted areas such as how we report development impact. That is a very fundamental thing that we have spent a lot of time developing over the last five years, so we were pleased to see that. Indeed, the transparency with which we report our fund investments was also something where we scored very highly.

We scored poorly on how we presented our core financial information, which had a lot to do with the formatting input. That is obviously something we need to fix, and are in the process of fixing. It is not enough to say you are transparent. You have to make it easy for people to understand what you are telling them. I can tell you about technology issues at BII, but I will not bore you with that.

The other area that is important is around environmental, social and governance issues, particularly around the ESG risk factors when we go into an investment. That is an area we have committed to improving on. I want to say BII has been subject to multiple parliamentary hearings and ICAI reviews. We have an extensive measurement and evaluation programme. All of these things require complete transparency from our side.

Chair: Thank you very much. Thank you, colleagues. We really appreciate it. There are things that we will follow up on in writing, as we have indicated, if that is okay. If you want to follow up on anything that you have already said, to give us more information, we would be very grateful. Thank you for all the work that you do. Your team do amazing things. We are very grateful for what you do around the world.