

# International Development Committee

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

Tuesday 6 June 2023

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Members present: Sarah Champion (Chair); Theo Clarke; Mrs Pauline Latham; Chris Law; Nigel Mills; Kate Osamor; Mr Virendra Sharma.

Questions 262 - 387

Witness

I: The Rt Hon Andrew Mitchell MP, Minister of State (Development and Africa), Foreign, Commonwealth and Development Office.



## Examination of Witness

Witness: Rt Hon Andrew Mitchell MP.

Q262 **Chair:** I would like to open this session on investment for development, the UK's strategy towards development finance institutions. We are very fortunate to have the Rt Hon Andrew Mitchell in front of us, who is the Minister of State for Development and Africa in the FCDO. Minister, thank you so much for joining us today. I believe that you have an opening statement you would like to make.

**Andrew Mitchell:** Thank you very much indeed, Chair. What I wanted to do was to emphasise at the outset of this hearing, while there are things that we can do to make it better, how far BII, formerly CDC, has come. When I had the privilege of being the Opposition spokesman on development and spent my time travelling and seeing on the ground the impact of various development initiatives, I decided that CDC, as it then was, had lost its way. You may recall, Chair, that, in those days—we are talking now about 2005 to 2010—pretty authoritative comment took place on the back pages of *Private Eye* questioning the direction in which CDC was going.

When we came into Government in 2010, we determined that CDC had lost its way. It had become a fund of funds. It was not augmenting the development DNA of its antecedents. When it was set up in 1947, it was clearly developmental. We could also see that, in a number of areas where you would expect a development finance institution to be investing, it was not doing that, and so, when we came into Government, we set about reforming it, and it was a pretty brutal process, with hindsight. At the time, CDC had 47 employees. When we reformed it, it got down below 20, and it is now at 600.

The reforms we implemented were to do, above all, two things. The first was to create key entities for delivering pioneer capital, going to the hardest and most difficult places and showing what the private sector could do in terms of investment and elevating the social and economic conditions of people in the developing world. It was also patient capital—capital that did not require a full market return and was able to operate alongside other elements of the private sector, and sometimes elements of the multilateral sector, to deliver real impact on the ground. Those were the key reforms—patient capital and pioneer capital.

I hope very much that what the Select Committee is doing in publishing and working on this report will help us to work together on improving BII still further. Today, if you were to ask what BII has done and what is so good about BII, I would say three things. First, employment, directly and indirectly, principally but not only in Africa, is something like a million people. That is a million tables with food on them, potentially.

Secondly, over the last five years, BII investments have paid something like \$10 billion of tax into treasuries. Not all that money will be well



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spent. Making sure that the money that states raise in that way through tax is well spent and contributes to social advancement, health, education and so forth is extremely important. Nevertheless, that is what it is paying. Between 2017 and 2021, there were 600 impact-led investments worth £7 billion. Finally, something like 277,000 GW of electricity were created for people who did not have electricity before.

That is the essence of what BII does. It was CDC. I used to say, Chair, that, in 50 years' time, CDC rather than DFID would be the symbol of Britain's commitment to development to help the poorest people in the world. Of course, CDC is now BII, and the Department has been merged.

**Chair:** I know that you are in full flight, but let me pause you there. That is a fantastic sales pitch, and let me credit you for the changes that took place. They have been quite revolutionary, and this Committee is very supportive of the principles around BII. What we want to do in this session is to dig down into some of the details. You have set the stall out. Let us pick up some of those things as we go forward.

Q263 **Mrs Latham:** I just wanted to clarify something. You said that there are 600 employees now. Who pays their salaries? Is it out of the development money? How much do all the salaries cost and how much is the top tier earning?

**Andrew Mitchell:** I had completed my remarks. I was just saying that, unfortunately, both CDC and DFID no longer exist, but I was making the point that that this will be a huge symbol of Britain's contribution to development.

**Chair:** We have that.

**Andrew Mitchell:** In terms of the way in which salaries are paid, BII is a development finance institution. It pays its staff, and all of that comes out of its balance sheet and its profit and loss account. We as taxpayers and the Government provide BII with specific amounts of money, which is ODA money—it scores as ODA when it goes into the accounts of BII. It is like any business: it pays its staff through its profit and loss account.

Q264 **Mrs Latham:** So we are paying their salaries. We are giving them the money to be able to do it.

**Andrew Mitchell:** Yes, we—the taxpayer—are the 100% shareholder and owner of BII. The Foreign Office holds that share. The expenses, like in any normal business, come out of the profit and loss account.

Q265 **Mrs Latham:** How much are the top-tier people in BII earning?

**Andrew Mitchell:** We can give you the figures for that. They are published. At the top of BII, no one is earning the money that they could earn outside of BII. Indeed, there are other organisations that are comparable, where people at the top are paid more.

Q266 **Mrs Latham:** That does not answer my question as to how much.



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**Andrew Mitchell:** I will send the Committee those figures, just to confirm them, although they are published in the accounts. I want to emphasise that they are paid less than comparable people in the private sector.

**Chair:** You have said that, Minister. Thank you.

Q267 **Mr Sharma:** Minister, you said that you will send the figures, which will be appreciated by all of us. What percentage of the money given to BII goes on staff salaries?

**Andrew Mitchell:** The vast amount of it is invested and is creating those results that I set out. I do not carry them around in my head, but we will give you the exact figures for what the staff are paid.

**Chair:** And the percentage breakdown of the investment that goes on staffing as well.

**Andrew Mitchell:** Yes.

Q268 **Chair:** It is very obvious that you have real passion for BII, understandably so. Going forwards, it is getting quite a considerable uplift in its funding at a time when many other organisations have had their funding either completely cut or quite dramatically reduced. I wonder if you can outline for us where British International Investment fits within the overall development strategy for you.

**Andrew Mitchell:** The Act that we passed some years ago gave BII an extra £6 billion, with an uplift for a further £6 billion. BII, along with everyone else, has had to take a cut this year of, from memory, 30%.

Q269 **Chair:** Next year, it is a considerable increase that compensates for that.

**Andrew Mitchell:** The cut from what it was going to get is 30%. It has a five-year strategy. If you look at foreign direct investment by Britain in Africa, it is about 3% of FDI.

Q270 **Chair:** We have the figures. What I am interested in is where BII sits within your vision for development. What do you want it to deliver within your overarching development vision?

**Andrew Mitchell:** The overarching development vision that we have is to tackle and stop conflict and to build prosperity. In the effort to build prosperity, we rely on BIP—British Investment Partnerships—and BII is the overwhelmingly largest part of that, although the Committee will be familiar with PIDG, which is very important and makes a big contribution. In terms of development, the aim of lifting people out of poverty and building prosperity—the work that BII does, which I characterise as employing directly and indirectly a million people—seems to me to be a very clear, visible sign of success.

Of course, a lot of the development budget is spent on promoting the social indices—promoting education, particularly educating girls, and promoting basic healthcare, particularly in terms of the rights of girls and



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women. In terms of building greater prosperity, I see BII as probably the most important and most fundamental way in which that prosperity is supported and developed by Britain.

Q271 **Chair:** Minister, when you answered that, was your first point tackling conflict?

**Andrew Mitchell:** There are two key pillars of development that we have learned over the years. One is tackling conflict—because conflict is development in reverse—by stopping it starting, trying to stop it once it has started, and reconciling people once it is over. Stopping conflict and building prosperity are two of the key aspects that Britain focuses on, which in the past has given us—and, I hope, in the future will give us—great intellectual and practical leadership in international development around the world.

Q272 **Chair:** The CSSF has been decimated. Are you fighting to get that reinstated to the levels that it was at?

**Andrew Mitchell:** I accept the settlement that has been agreed by Parliament, which has cut ODA spending.

**Chair:** I was specifically talking about the CSSF.

**Andrew Mitchell:** CSSF is not ODA spend as such.

**Chair:** Quite a lot of it is.

**Andrew Mitchell:** It is partly ODA spend. It is a pooled fund.

**Chair:** Are you fighting for it?

**Andrew Mitchell:** I am always fighting for as much as I can get. I was going to make the point that, in terms of the ODA element, I accept that it has been reduced until the two fiscal tests are satisfied. The 0.5% is actually at 0.55%, because we managed to persuade the Treasury to produce an extra £2.5 billion.

Q273 **Chair:** I am just interested that you put tackling conflict first. In your recent Chatham House speech—thank you very much for the reference to this Committee—you stated that development and geopolitics go hand in hand. How do you see that applying to BII?

**Andrew Mitchell:** The geopolitical point is that—there is an absolute priority on this—we are halfway through the SDGs and need to get them back on track. They finish in 2030, and Britain must play a leading role in galvanising activity to make sure that we get them back on track.

We also have to tackle climate change. This is a year of many international meetings. In my judgment, we heard quite a lot of noise from the developing world in Glasgow. That noise was amplified greatly in Sharm el-Sheikh last year and, by the time we get, after a number of these summits during the year, to UAE at the end of this year, the noise will be very great unless we have addressed the issue of both how you



fund and meet the promises that the world has made on combating climate change, but also, if you have that money, what the merit order of climate adaptation is, how you enable some of the poorer countries, which simply cannot get through the gateway to access these funds, to access them, and what technical expertise and support you give them. What I am talking about there is those two twin things: how you get the SDGs back on track and how the richer world lives up to its promises on tackling climate change.

Perhaps I could say that it is our intention to produce, before the end of this year, a White Paper on exactly that challenge: how Britain will inject leadership to meet those challenges. I am hopeful that this will be an unusual White Paper, because, although it is clearly a product of the Government, I want it to be one that would survive any possible future change of Government and that people would see as a road map for how you get to the 2030 end, having dealt with those two key geopolitical issues.

Q274 **Chair:** Minister, that is great, but it does not answer the question of how you see BII playing a role within that.

**Andrew Mitchell:** I hoped I had made that point, but the two key elements are tackling conflict and building prosperity. I see BII as fundamental in tackling prosperity. If you look at where it is in investing its money, something like 30% of its investments now will be related to the position of girls and women. A very substantial amount is going into trying to tackle climate change. BII's investments have catalytic effects, where they drag in both multilateral funding and the private sector. There are \$60 trillion of pension funds in the private sector around the world.

If you look at the catalytic effect that BII has as well, you can see how they are really driving forward that prosperity agenda. I would argue that there is ample evidence to suggest that, whereas, 10 years ago, CDC/BII was nowhere in this constellation, today it is setting the standards around the world for other DFIs and is now the best DFI in the world.

Q275 **Chair:** You said that the two priorities were climate change and the sustainable development goals, so are you directing BII to focus on those?

**Andrew Mitchell:** Yes.

Q276 **Chris Law:** I wanted to ask about British Investment Partnerships. Where does BII fit within British Investment Partnerships?

**Andrew Mitchell:** It is the overwhelming part of it, but part of that is also UKEF, the British Government's export credit guarantee organisation, which supports a lot of these investments in poor countries by British business. UKEF is also the best of the national export credit agencies in terms of local content in what it will support. UKEF is an extremely important part of the BIP toolkit.



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PIDG has done quite remarkable work. In 2021, it invested over half a billion dollars in 19 new projects, 13 of which were in sub-Saharan Africa. That is a remarkable contribution. BII is the overwhelming element of it and, together, this makes up the British Government's toolkit in trying to help boost the private sector and drive forward its objectives and ours.

**Q277 Chris Law:** You talked earlier about investment in health and education, and involvement from private organisations as well. In terms of the health and education investments that BII is making, are we ending up with schools, colleges, further education institutions, hospitals and healthcare units that are private or public for the end user? Who are they owned by?

**Andrew Mitchell:** BII no longer invests in primary and secondary education. It is investing in tertiary and technical education. It invests in education technology companies. There is a role for non-state actors in this.

**Q278 Chris Law:** Just to be clear, it is a privately owned institution. Is that right?

**Andrew Mitchell:** BII invests private capital, so it is. If I may move on to healthcare, where it invests in the manufacturing of medicines, devices, equipment, pharmacy and health technology, it has deprioritised any investment in new private hospitals. Any investment that it makes in this sector would need to show charitable Government input for low-income families. It is a more rigorous regime than it was 10 years ago.

**Q279 Chris Law:** The reason that I am asking is that I wondered what success would look like for British Investment Partnerships and if that is part of that change. I met this morning with NGOs from Malawi, which were saying that, given the compounding situation between covid, the cost of living and all the rest of it, they can no longer afford healthcare. In fact, the healthcare institutions are largely being delivered by the private sector, so I wondered if we are contributing to the problem or trying to assist.

**Andrew Mitchell:** I cannot give you, off the top of my head, the figures in Malawi, but, because BII would insist that the investment was pro-poor and one that was helping people on very low incomes as well, rather than a classic private sector health investment, it is definitely part of the solution rather than part of the problem. I would like BII to do more in Malawi as the economic situation in that country stabilises.

**Q280 Chris Law:** How will British Investment Partnerships mobilise £8 billion per annum of capital by 2025? What role will BII play in helping to achieve this target? How confident are you that this target can be reached?

**Andrew Mitchell:** We are determined to reach it, and BII is deploying billions of pounds of capital. Largely, 60% of it goes into Africa, and that money will help meet the SDGs. It will help energy transition. It will help





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with the infrastructure gap. It will help contribute to climate funding. As I say, the extent to which this is an important, vital and successful development tool is sometimes underestimated.

Q281 **Chris Law:** Given the importance of capital mobilisation within the international development strategy and for British Investment Partnerships, should this be a key performance measure for BII?

**Andrew Mitchell:** I do not know whether we are going to come on to the issue of transparency in BII.

**Chris Law:** We are.

**Andrew Mitchell:** Do you want me to answer it now?

**Chair:** Go wild. Answer it now. Anything could happen in 10 minutes.

**Chris Law:** Get stuck in.

**Andrew Mitchell:** The Committee is being extremely helpful in underlining the importance of transparency in BII. As I set out in the Chatham House speech, there are things that we can do to help it be more transparent. I say this partly because, clearly, there are certain situations where commercial confidentiality has a really important role to play, and we do not want to fetter its competitive position.

There is sometimes too little transparency, which feeds the idea that it is not being open on issues, which, if it was able to be open on, would reassure the Committee that what it is doing is brilliant and entirely in keeping with what the Committee would expect. I am waiting to see what the Committee's advice is on the issue of transparency in BII.

Q282 **Chair:** Does that mean that they are not as transparent with you as you would like?

**Andrew Mitchell:** I am acting on behalf of the shareholder. They are transparent with me. I meet with the chair or the chief executive, or both, once a quarter. I am incredibly anxious to keep itchy-fingered officials and Ministers away from them. What they are to do and how they are to do it is clearly set down by the shareholder, so I do not want to keep on interfering with them, but we have these quarterly meetings.

Q283 **Chair:** But it is taxpayers' money, so I would rather expect that you are interfering with them.

**Andrew Mitchell:** This is a standalone entity governed by the Financial Conduct Authority. They have a very clear set of instructions from us as Ministers on behalf of the British taxpayer, and that is the right way to do it, rather than to continually interfere with and pester them. If we want to change the terms of trade, we can do that, of course, but the main thing is to let them get on with it. My submission to the Committee is that, over the last 10 years, as they have built up in the way that I have described, they have delivered substantially and effectively.





Q284 **Chris Law:** They have also delivered quite negatively, as you know, in their major investments in Mozambique, which are tying the country to a 10% increase in its carbon emissions through gas extraction.

If we just come back to transparency, would you describe BII as a transparent organisation? How does FCDO verify BII's results and ensure that there is no impact washing? I did not know what "impact washing" was until I read this report, so it is really helpful. For those who are listening, it is a term used when an investor overstates or falsely claims an investment's positive impact on the environment or society.

**Andrew Mitchell:** BII has an extremely good strategy for impact assessment. It is looking at revivifying it and renewing it to make sure that it is as effective as possible.

Q285 **Chris Law:** The question was how FCDO verifies that BII is not impact washing. It could tell you that it is doing a fantastic job and producing great results, but how does FCDO check on that?

**Andrew Mitchell:** It is not just FCDO but the ICAI that is able to report on it. The media is able to read for itself and see what it says it is doing. An inquiring media is very important in all of this. BII has to produce published accounts, which have to be accurate. I am very confident that we are across what it is doing. As I say, in these quarterly meetings, we ask questions and they have a genuine and helpful dialogue with officials, as is required.

Q286 **Chris Law:** In your 27 April Chatham House speech, you mentioned that there would be a transparency road map for BII. When is this likely to be published?

**Andrew Mitchell:** I want to see what the Committee's advice is first, and then we will proceed as I described in that speech.

Q287 **Chris Law:** Do you think that the 2X Challenge gender initiative is enough for promoting and supporting women in the workplace?

**Andrew Mitchell:** Yes, I do. It is setting standards that others are now seeking to catch up with, and we will continue to prioritise that in every way that we can.

Q288 **Chair:** It is very discreet, though, is it not? It is not changing the world.

**Andrew Mitchell:** There is a very strong argument that BII is changing the world.

Q289 **Chair:** No, I am talking about the 2X scheme. It could do so much more. You have always been very ambitious around the rights and prosperity of women and girls, and you could embed much tougher pipelining into BII's investments to, for example, ensure equality of salaries, opportunities and promotion, rather than this rather weak 2X that it has.

**Andrew Mitchell:** If there are any suggestions on that from the Select Committee, I would be most grateful to receive them. In terms of salaries



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and workforce treatment, we expect decent standards wherever these investments take place. There will be times when things do not go right, but I am pretty confident that that priority is clearly understood throughout the whole of BII. On your first point, if there are suggestions from the Committee about how we can do better with that, I look forward very much to receiving them.

**Q290 Chris Law:** Is BII's target of 25% for new investments to meet gender lens investing criteria a sufficiently stretching target for the 2022 to 2026 strategy period? I will just add another question at the same time, while we are talking about it. Under the UN rules, approximately one in seven people have a disability. What targets do you set for improving the economic situation of disabled people?

**Andrew Mitchell:** We have a disability strategy. I will write to the Committee on what the targets are, but they are embedded in all of these plans. What was the first part of your question, before disability?

**Chris Law:** You have a 25% target for new investments to meet gender lens investing criteria.

**Andrew Mitchell:** I am very happy that that is a significant move forward from what happened in the past. We will continue to keep it under review, but, as the Chair suggested, it is a very high priority for us to advance that agenda.

**Q291 Nigel Mills:** Andrew, you started by saying that BII's key roles were pioneer investing and patient capital. Those were the two that you cited. What percentage of BII's investments would meet the definition of "pioneer"?

**Andrew Mitchell:** I cannot give you a statistic. Indeed, I mentioned one of them when I was here before and the Chair's eyebrows were raised slightly. To invest in ports in Africa, which have very high and significant capital requirements, or to invest in a port in Somalia, certainly fits the category of pioneer capital.

The point that I was trying to make was that there are lots of commercial businesses that will react to market circumstances when it is easy. What we need in the developing world is patient capital and pioneer capital that goes to the places where the private sector perhaps has not yet gone or is fearful of going, and shows what I would regard as the magic of the private sector in terms of investment yielding jobs, putting food on people's tables and lifting people out of poverty.

The role of BII, which, as I say, is setting standards and examples all around the world and advancing the ability to deploy both pioneer and patient capital, is extremely important in trying to achieve those objectives.

**Q292 Nigel Mills:** The reason that I ask that is that it is not immediately clear through this inquiry that that is exactly what it does. I had a look at its



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annual statement—I think 2021 is the most recent—and in the opening remarks by both the chair and the chief executive, neither of the words “pioneer” or “patient” are mentioned at all, although they are perfectly worthy statements. It sounds like you have set BII a strategy, but that is not what it is reflecting back when it reports on what it is doing. You did not tell me roughly what percentage of its investments were pioneer, but I am intrigued to know whether enough of them are. What target should it have? How do you, as FCDO, ensure that it is delivering the mission that you have given it, rather than a slightly different one?

**Andrew Mitchell:** BII uses a figure of \$5.50 a day as a poverty benchmark. That is substantially above the \$2 a day that we talk about, but there are different ways of helping those on \$2 a day. It has this poverty benchmark, and 50% of those benefiting from BII investments and projects are below that level. Inevitably, that threshold is quite high, but the World Bank makes it clear that you have to get to \$13 to permanently escape from poverty. What we are trying to do is to drive up the ability of people to escape poverty once and for all.

Although I cannot give you a figure for pioneer investment, and although it may be that it is not expressed in those terms at the remarks that you described, I would strongly urge the Committee to consider the argument that very large amounts of what it does are both pioneer and patient, and have a catalytic effect on other investors to drive them down a similar pathway.

Q293 **Chair:** Minister, you said that 50% of people benefiting from CDC/BII investment were in poverty.

**Andrew Mitchell:** They fall below the \$5.50 benchmark.

Q294 **Chair:** Yes, which is a very high benchmark compared to what most other people use. Would a benefit be buying electricity from one of the fossil fuel power stations that it funds? What do you mean by “benefit”?

**Andrew Mitchell:** Being able to buy off-grid electricity, which it enables people in Africa to get access to, is a very important benefit and part of the pathway out of extreme poverty.

Q295 **Chair:** So that is how you would be defining a benefit.

**Andrew Mitchell:** Would it be helpful if I wrote to the Committee with a detailed analysis of that specific point?

Q296 **Chair:** It would. For example, you could say that EDF is benefiting the poorest in this country, which is a similar stretch. If you could define it a little better, that would be extremely helpful.

**Andrew Mitchell:** That is not what I am saying, but maybe the most helpful thing that I could do for the Committee is to set out the particular benefits that result for those below that level.

Q297 **Nigel Mills:** I was just trying to see how the strategy that you think BII



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ought to have relates to the one that it does have and how you enforce that. You said that there is a set of written instructions that the Government periodically give to BII, rather than day-to-day tinkering. When you have your quarterly meetings, is that something that you scrutinise it on—"What have you been investing in this quarter? How much of it meets this and how much of it is just investments that will give you a nice return but that you could not really call pioneering?"?

**Andrew Mitchell:** It is better than that, because we, the shareholder, lay down what they can and cannot do. We do not just inflict it on them. We discuss with them the best ways of getting the impactful results that we want to achieve. There is a proper discussion and, in the end, the shareholder decides, and they then ride to our instructions, so it should not be necessary at the quarterly meeting to deal with that. The strategy is laid out and has been agreed by all parties, and that is the strategy that we pursue.

You will appreciate that I have not done very many quarterly meetings since I have returned to Government, but the importance of the meetings is for BII to raise with me things that it is worried about, or issues where it needs the shareholder's view, and for me to raise many of the sorts of things that the Committee may be putting in this report, which will enable me to drive forward a common agenda.

Q298 **Nigel Mills:** Do you discuss individual investments with them? Do they come to you and say, "We are thinking of investing in X. Do you think that that is okay?" or do they not get to that level of detail?

**Andrew Mitchell:** They would not ask me whether it is okay, because they would know from the terms of the agreement with the shareholder what is and is not acceptable.

Q299 **Nigel Mills:** Some of these things are in a bit of a grey area, and the world moves on. You just said that, 10 years ago, they were doing private healthcare, but that that would not really be permitted now, unless there were some charitable benefits.

**Andrew Mitchell:** Unless it was affecting the least well-off, yes.

Q300 **Nigel Mills:** That is the kind of thing that is quite fluffy, is it not? Is that the sort of thing where they would come to you and say, "We are thinking of doing this. Does this have enough charitable benefit to it or not?" It is quite hard to write that into a five-year statement.

**Andrew Mitchell:** We have to be careful, in encouraging renewable energy in Africa, not to appear to take a rather didactic view that, whereas we, for our industrial revolution, were able to exploit all our natural resources and elevate the social and economic condition of our people and our country, they cannot use these assets where they have them.



There is a balance to be struck—for example, there are gas projects that proceed—but the way we look at it is this. If your strategy for renewable energy means that 80% of the energy you are investing in is renewable and some is not—gas, for example—then, instead of taking a didactic view, we should take a tolerant view, look at the direction of travel and the way in which renewable energy is being promoted, and perhaps point out that fossil fuel assets in 30 years' time will be worth a fraction of what they are worth today because of the growth of renewable assets and energy. Not to have too hard and fast a didactic approach is the right way to achieve the aims that we all want to see.

Q301 **Nigel Mills:** I am not quite sure that that was the question I asked, which was whether they refer investments up to you to say, "We think that this is a good investment, but we are not quite sure that it meets our instructions. Is this one okay?" Does anything like that ever happen or do you not get to that level?

**Andrew Mitchell:** That has not happened to me. I would be surprised if that happened. That would not be the sort of thing—them saying, in your words, "We think that this is a bit iffy. Can we do it?"—I would expect them to say to me.

Q302 **Nigel Mills:** You said that you try to keep officials' itchy fingers out of the way of them. Does that suggest that your Department is reviewing what they publish about their investments and are a bit unsure about certain things? Where would your officials be getting itchy?

**Andrew Mitchell:** I am making a less sophisticated point. I am just saying that the shareholder has an agreement with BII that this is where you want it to invest, that you want it to go to the hardest and most difficult places and that you want it to focus on the SDG element and on tackling climate change. If you lay down all of this and BII then goes out and tries to get on with it, it is not very helpful if it is continually interfered with, having made that agreement. I am in favour of it taking instructions from the shareholder, making sure that those instructions are clear and understood, and letting it get on with the task, because that is the way that you achieve the best results in this.

Q303 **Nigel Mills:** So you would not be keen to have an FCDO representative on the board of BII. You do not see any advantage to that.

**Andrew Mitchell:** No, I do not see any advantage to that, because we are able to exercise the element of control by the fact that we are the 100% shareholder. I would see no advantage in that at all.

Q304 **Nigel Mills:** What about somebody attending the board but without a voting role?

**Andrew Mitchell:** As the shareholder, we can receive the minutes. We can do what we want as the shareholder, but I am just making the point about how you get the most effective results from BII by agreeing with it



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a set of criteria for what it is going to do, letting it get on with that, and interfering only when it is essential to do so.

Q305 **Nigel Mills:** How closely linked, in territory, should BII be with our embassy and people on the ground? You are saying that you want it to invest more in Malawi when conditions allow. Would you encourage it to work with the embassy to identify suitable partners or projects? Is that a positive thing?

**Andrew Mitchell:** It is an extremely good question. When I go on a country visit—in the short time that I have been back in Government, I have visited a large number of African countries—I try to make sure that the Governments and the private sectors with which we are dealing are aware of just what a huge asset BII is. If I am speaking to businesspeople or to Government, I try to wrap in BII with it. If it has people on the ground, I try to make sure that they are with me. I would regard it as a most important part of the UK offer that we are trumpeting the benefits of BII investment in all countries where it is able to do business.

Q306 **Nigel Mills:** Is this just you or is this standard practice that you expect our embassy and people who are in these countries to follow? Is that in their daily working approach? Is it in their instructions? Is it measured and assessed, or is it just you who does this on your roadshows?

**Andrew Mitchell:** It is a bit of both, but it would certainly be true that BII is getting much more airing around Africa when I go, because I know about BII. I can see how advantageous its work can be on the ground, and I want the people in countries to benefit from that. It is certainly something that we are doing a lot more of now than we were doing before.

Q307 **Nigel Mills:** Is there a merger benefit, now that you have FCDO and DFID as one team, whereby FCDO people are perhaps more familiar with BII than they might have been previously?

**Andrew Mitchell:** One of the two benefits of the merger are that things like this now benefit from having the global reach, authority and might of the Foreign Office behind them, because the Foreign Office is a global platform with these outstanding diplomats in most of the countries of the world. By making sure that they know about BII and are aware of the benefits that BII can have on the ground, we can use the Foreign Office platform to promote our key development asks; that is undoubtedly true.

Q308 **Chair:** Minister, in your answer, I can see how that benefits BII. I am rather more interested in how a close working relationship between BII and FCDO benefits FCDO. Do you try to foster those close working relationships, or do they both run as separate entities?

**Andrew Mitchell:** Both those things are true. We do not expect the Foreign Office to interfere in the working practices of BII, because those are laid down in the agreement with the shareholder. If you are an





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ambassador in a country such as Senegal, BII's investment in the port in Senegal gives significant kudos to Britain. Ministers and senior officials know that Britain is a key investor there. They both rub up against each other. It is helpful to BII to have the support and involvement of the Foreign Office, and it is helpful to the Foreign Office to have clear examples of how Britain is contributing to the investment in their country and how the British-Senegalese relationship is powering forward in terms of greater investment, greater jobs and greater trade.

Q309 **Chair:** I was thinking on a more practical level. We were very impressed when we went to Nepal and saw a BII-funded project for fibre broadband. The owner of that was very keen to get women involved as engineers, but was very aware of the cultural resistance to that. On his own, he could not do much to challenge the culture but, because BII had such a close working relationship with FCDO, some of their education projects around women's and girls' training opportunities meant that the two could build on each other's successes. Is that sort of thing standard or is it unique to Nepal?

**Andrew Mitchell:** It is an outstanding outcome, because it is the two of them pushing each other forward on a common agenda.

Q310 **Chair:** With limited funds, the more that that can happen, the better.

**Andrew Mitchell:** Yes, and that is a very good example of progress being made. I will find out the extent to which that is a unique set of circumstances. I suspect that it is not, but that is probably one of the better ones that would elucidate that.

Q311 **Chair:** You seem very resistant to FCDO having a seat on the board. What would you think if that was one of this Committee's recommendations?

**Andrew Mitchell:** I would respectfully suggest that any benefit from that is gained in other ways and that it would be unnecessary to put an official on a board that is tasked with driving forward investment within the rules set down by the shareholder. I would argue that it was unnecessary.

Q312 **Chair:** Should the taxpayer not have a seat on the board?

**Andrew Mitchell:** The business is accountable to Ministers who act on behalf of taxpayers, so I do not think that there is a benefit from it. Would you like me to set down for the Committee, as part of its considerations, my argument in more detail?

**Chair:** We would be very interested.

Q313 **Chris Law:** I cannot see the disadvantage of it sitting on the board. For one thing, you get to learn about all the discussions that you are not getting to hear when you are getting a report. You get a report at the end, but, when you are sitting on the board, you get to hear and be part of discussions. There might be things discussed that raise an eyebrow or two. Why do you see that as perhaps being a bad thing?





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**Andrew Mitchell:** BII's arm's length relationship has a number of advantages for the Foreign Office as well. First of all, there need to be robust and clear lines of accountability from the board to the shareholder. The Foreign Office appoints the chair and two non-executive directors and, as I have been explaining, sets the strategic objectives and the key operating parameters. The board is then held to account in the way that I described for delivering this strategy.

To have a Foreign Office official on the board would, in my view, confuse and blur these lines of accountability. In order to have an effective and empowered board, having a Foreign Office official on the board responsible for providing the Department's considered view on every decision would undermine and potentially destabilise the board and reduce its effectiveness.

Above all, I want the board to be independent from political pressure. The independence of BII's board sends a very important signal to the market and to the private sector. It reassures potential investee companies and co-investors that BII conducts its activities in a commercial manner without political interference and will be a reliable and predictable long-term business partner. We need not to meld together these two things. You need to be clear about the role of the Foreign Office as the shareholder and the role of BII as a business in driving forward the objectives it has been set by the shareholder.

Q314 **Chair:** Are those objectives not political?

**Chris Law:** Choices need to be made.

**Andrew Mitchell:** The point is that the way in which they are carried out is in accordance with the terms of the market. That is the point. I may not need to write to you now, because I have spelled it out.

**Chair:** You have read it out beautifully.

Q315 **Mrs Latham:** How does FCDO ensure that BII's investments promote inclusive economic growth?

**Andrew Mitchell:** The accountability mechanisms we have, which I have been talking about extensively, enable us to monitor that.

Q316 **Mrs Latham:** BII's statistics on tax revenue show that taxes paid by investee companies decreased from \$4.1 billion in 2016 to \$1.5 billion in 2021. Given the growth in BII's investment portfolio, why are Governments receiving less tax from BII's investees?

**Andrew Mitchell:** The reason I gave the five-year figure was that it gives a better snapshot. These figures will go up and down depending on the nature of the investment, the yields upon it and whether an investment is yet—

Q317 **Pauline Latham:** This is five years. It is 2016 to 2021.



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**Andrew Mitchell:** The figure for tax paid over the last five years is \$10 billion.

Q318 **Pauline Latham:** It is less than before, significantly less.

**Andrew Mitchell:** The point I make is that these amounts go up and down depending on the state of the investment.

Q319 **Pauline Latham:** Does BII's investing through intermediary funds that are domiciled in low-tax jurisdictions such as Mauritius and the Cayman Islands contribute to lost tax revenue elsewhere?

**Andrew Mitchell:** The way I would describe the use of places such as Mauritius is that it is a bit like an aircraft carrier on which investments from different parts of the world can be treated similarly.

The argument for having Mauritius, for example, as the entity that accounts for these investments is not one of tax avoidance. It is a regime that is neutral in terms of the investment going in, but, when the investment comes out, the tax is paid on any profit from the investment in accordance with the country where it is earned.

Q320 **Chris Law:** Can I ask a follow-up question? It seems absurd that you are not just using British banks. They are world-class in the way they deal with their handlings. More to the point, if there were tax to pay on the profits from taxpayers' investments in BII, there would be some return on those profits in tax. Why are we not taking advantage of that by having it based in the UK? I do not understand that.

**Andrew Mitchell:** Tax is paid in a country at the rate at which that country sets its tax. It is not about tax. It is having a common platform for the way in which an investment is set up. In terms of the tax take, that depends upon the rules of the country in which the profit is earned.

Q321 **Chris Law:** What I am trying to say is that, if there is profit earned, you pay taxes. It does not matter which country you are in. If you are in the UK and you pay taxes, they will go to the Treasury. If it is in Mauritius and the Cayman Islands, it does not come anywhere near the Treasury. Given the fact that taxpayers have invested in BII, surely this is a positive way to get some of that back.

**Andrew Mitchell:** This is about vehicles for setting up investments. If you earn a profit in Malawi or Ghana, you pay tax on that profit at the rate that prevails in those countries.

Q322 **Chris Law:** You are still not answering the question. Why are you not doing that using a British vehicle here in the UK?

**Chair:** We are talking about intermediaries here.

**Andrew Mitchell:** You are talking about intermediaries; I am talking about investment vehicles. BII does work with intermediaries, but in an entirely open way.



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Q323 **Chair:** It is banking in low-tax areas. That is the question. Would it not be better to encourage it to bank in the UK?

**Andrew Mitchell:** It is not always possible. Some investments have established arrangements. We would not be in the business of forcing them to do this in the United Kingdom.

Q324 **Chris Law:** Could you possibly write to the Committee to give us more detail? I asked this question before when it was CDC and I always got this rather vague reply. I am sure there is detail I am missing here. If you could possibly write to us about it, that would be really helpful. It is an area I am quite focused on.

**Andrew Mitchell:** I will endeavour to satisfy you in written form.

Q325 **Pauline Latham:** Could we come to the targeting of BII's investments? How does the Foreign, Commonwealth and Development Office monitor the overall ODA allocation to a country of both programme expenditure and BII investments?

**Andrew Mitchell:** The overall investment in BII is set down by Act of Parliament, and I referred to it earlier. It was £6 billion plus an extra £6 billion, which would be the subject of a statutory instrument. We do intend to give it some further shareholders' funds, and that will be the subject of Parliamentary scrutiny. It will be done through a statutory instrument.

It is enabled by the Act that went through Parliament, which gave £6 billion at the time and then enables another £6 billion, under the terms of that Act, to be done by statutory instrument.

Q326 **Pauline Latham:** When is that going to be laid?

**Andrew Mitchell:** It will be quite soon. It will be public, clearly. Should Mrs Latham wish to contribute to the debate on it, I very much hope that she will and that she will find it appropriate and suitable.

We have to balance all these things. As you will know, the budget has been incredibly constrained, particularly the bilateral budget this year. Things get easier next year. We have been able to announce, for example, that next year we expect to spend £1 billion on humanitarian relief. This year it is extremely tight. We have to balance all these different factors up. We try to do that in a sensible but, above all, open way that can be scrutinised.

Q327 **Pauline Latham:** Can you tell me why India, a middle-income country, should receive the largest portion of BII's investment?

**Andrew Mitchell:** If you take the historic figures, that is true. The Committee would agree that, without investing in climate-friendly activities, putting climate funding into India, we will never reach the climate goals.



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You will recall that, when we came into Government in 2010, we thought we would stop all ODA money going to China and we would change the amount going to India. At that stage, India had been the largest recipient of British aid money since the second world war. That stopped in 2011. Investment in India, which can earn a result for the British taxpayer, particularly in helping us to achieve our climate goals, is extremely important. In the investment scores for ODA, money that goes into BII does not score again when it is spent from BII.

In 2011-12, we made changes in India. We said we would focus not on programme expenditure but on investment in pro-poor industry, which delivers a return for the British taxpayer, and technical assistance. That was the right way in which to walk the final mile with India on development. As a matter of fact, I was looking at this the other day. The investments we made back in 2011-12, which you may recall, have done incredibly well. They have yielded money for the British taxpayer, and jobs, employment and investment in India.

Q328 **Pauline Latham:** How long is the final mile going to be?

**Andrew Mitchell:** I cannot put a date on that, but I can say that India is a very important part of our efforts to produce climate funds to tackle climate change. Our very close partnership with India helps to promote some very good expenditure in that area.

Q329 **Pauline Latham:** Should India not be doing that, if it is a middle-income country?

**Andrew Mitchell:** We should both be doing it. A lot of our funding is catalytic. It brings in an enormous amount of additional funding from India and elsewhere.

Q330 **Pauline Latham:** What evidence do you have that BII's investments in middle-income countries actually reach the poorest and most marginalised people in those countries? We know that there are some very marginalised people in India. How do we know that BII's money is getting to them?

**Andrew Mitchell:** The money is not dispensed in a covert way. It is all public. You can see yourself the investments that have been made, what is happening to them and the people they are reaching. In any investment in India, the results of that investment would be there for you to make that assessment. Our assessment is that these are good investments that are meeting the purposes we intend.

Q331 **Pauline Latham:** Reaching the poorest and most marginalised people and giving them jobs, if you like, is going to help them. You do not seem to be able to assure us that it is getting there.

**Andrew Mitchell:** The way I would put it is this. I mentioned the \$5.50 figure earlier. Clearly, BII's investment is extremely helpful. There are an enormous number of people in middle-income countries who are poor.



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These investments are benefiting a very large number of people, less so the people who live on less than \$2 a day, but there are other ways in which we try to support them—through social programmes, through health or through education. Britain is a big investor in educating girls. The other work that Britain's international development effort does more directly affects those who are the least well-off.

The point I am trying to make is that, in terms of the developing world, the huge difference that BII is making is there for all to see.

**Q332 Pauline Latham:** If you want to ensure the ODA budget is focused on helping the poorest and most marginalised people in the world, should there be a cap on the proportion of your portfolio that is invested in middle-income countries?

**Andrew Mitchell:** I would not put a cap on it, but we are conscious that the needs are different. Britain has always been seen, of the G7 countries at the World Bank and the IMF, for example, as the country that focuses on the least well-off. We are always the country that goes back to that requirement and that particular point. I would not necessarily put a cap on the investment.

It is our duty to the taxpayer to make sure this money is really well spent and delivers the results that justify it, so I would not put a cap on it. In the same way, I am not particularly in favour of putting a cap on multilateral expenditure as opposed to bilateral expenditure. They both have a tremendous role.

**Q333 Chair:** Why are you so resistant to putting a cap on this? If you are saying that we are seen internationally as the country that supports the poorest, why wouldn't you take Mrs Latham's suggestion of putting a cap on middle-income countries?

**Andrew Mitchell:** It is not necessary to do that. You look at the whole waterfront of development and what your investment is tackling.

**Q334 Chair:** No, we are specifically talking about BII and why it is spending so much money on middle-income countries.

**Andrew Mitchell:** We set clear criteria, which are designed to make sure they go to the more difficult places and to have this pioneer effect, which I have described.

**Q335 Chair:** We have slightly debunked the pioneer effect earlier on. I still do not understand why you are not supporting Mrs Latham's suggestion.

**Andrew Mitchell:** I just do not think it is necessary to have an absolutist approach to this.

**Q336 Pauline Latham:** Is it possible that BII is just a commercial operation, that it is about making profits and that investments are most important, rather than reaching the most marginalised? You talked about how it does not really affect the people who are living on less than \$2 a day.



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They are pretty much the most marginalised and disadvantaged people in the world, not the ones on \$5 a day, which is not good enough anyway. Are you saying that it is actually more about the profits of BII than anything else?

**Andrew Mitchell:** We have not mentioned the fact BII makes profits at all today. There is a toolkit for Britain to try to make its contribution on international development, of which BII is an extremely important part.

Remember that BII makes far less than commercial returns—the sort of returns that the commercial and private sector expects to make. We expect it to make a profit because it would be an extremely bad example of the work of the private sector if it were not required to make a profit. As it happens, it has a very high appetite for risk; it has a 30% risk tolerance. That is the right thing to do.

Its profit levels are much lower than in businesses in the private sector. That is the right balance to strike. BII is not there to make money, but to deliver pioneer and patient capital to the most difficult places and to lead the broader private sector, by its example, to invest in these places.

Q337 **Chair:** If it not there to make money, why did BII invest in Pep Technologies? That is an Indian company that makes personal care products. It did that in September 2020. What is the development impact it was seeking to achieve with that?

**Andrew Mitchell:** I will write to you about that so I can give you a first-class answer, because I do not know off the top of my head the answer to that. I am sure you will find there is a good development argument.

**Chair:** I look forward to hearing it.

**Andrew Mitchell:** I will write to the Committee about that.

Q338 **Chris Law:** I am just surprised at your response to Pauline's question. You are not an absolutist; I get that. If you are saying, on the one hand, "It has a 30% appetite for risk," but, on the other hand, "It is not about profit," why not cap it? All of that is built in. You could say, "Since we have a 30% risk strategy, which is perhaps greater than more profit-minded firms, we could be taking greater risks in the countries that really are on the bottom rung of the ladder in terms of investments, rather than India." Would that not be the case?

**Andrew Mitchell:** For a DFI such as BII, you have to have a cocktail. You cannot just send it to the most difficult countries.

Q339 **Chair:** A cocktail has quite precise measurements. In your cocktail, you have put, say, 20% in middle-income India and 5% in Nepal.

**Andrew Mitchell:** It is not an exact science. I hope they are always looking for good investments that meet the criteria that have been set.

Q340 **Chair:** If you were on the board, you would know.





**Andrew Mitchell:** I can write to you about that as well, if you want. It is not my job to know the intricate details of that, but to set the criteria and then ensure there is proper scrutiny and parliamentary accountability for the way in which they are delivering on the purposes the shareholder has set them.

Q341 **Nigel Mills:** We are wandering neatly into this question of additionality, are we not? The role of BII is not just to make investments other people would have made and effectively crowd out private investment. As you say, it is to go where the private sector would not normally go. Does BII do that well or is there a bit of a tendency to go with the crowd? We have seen various examples of it co-investing with other DFIs as well. That seems to be a slightly counterintuitive thing to do. If others are doing it, why do we join in?

**Andrew Mitchell:** There is an element of risk spreading in that, which is absolutely fine. Your core point is the reason why we reformed CDC. When I was in Sierra Leone, I saw a set of investments that were pioneer investments. CDC was not interested in doing them; CDC came in on the second round of these investments. That taught us that CDC was not making pioneer investments. That was at the heart of the reasons why we introduced the reforms we did.

Where they are co-investing, sometimes they are giving confidence by their investment to a slightly timid private sector entity. If it is another DFI, sometimes there is a degree of risk spreading. In terms of them being tasked to go to the more difficult places, to make the more difficult decisions and to have a proper risk appetite, as I said, they are setting standards that others are copying in other significant DFIs around the world.

Q342 **Nigel Mills:** Is BII one of the leading DFIs?

**Andrew Mitchell:** To be honest with you, when I came into Government in 2010, Proparco, the French DFI, was probably the leading DFI. We studied carefully what it was doing. I am pretty confident today that you will not find a development finance institution that is better at what it is doing, in terms of the criteria it has been set, than BII.

Q343 **Nigel Mills:** That is not quite the evidence we have had, but I guess we can weigh that up. In terms of additionality, the challenge is not just at the start, when perhaps it was additional on day one. At some point, you want to exit because you have now proven that this sector in this country could work or that this investment is viable. Is BII recycling its money sufficiently quickly? Is it being tempted to stay in investments because they are going pretty well and that helps it achieve its return targets?

**Andrew Mitchell:** No, I think they are encouraged to do so. It would be quite wrong for officials to tell the business when it should or should not exit from an investment. That is a commercial decision for BII to make; I would be very content to leave that to BII. In any case, if I wanted to





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change that set of circumstances, I would need to go back to it with instructions as the shareholder.

Q344 **Nigel Mills:** Pioneers were not generally patient people, were they? It is kind of like two opposites. If you want someone to go charging headlong into new markets, that is very different to staying there for 15 years and making sure it works. Do you recognise that this is quite a tricky judgment? If you are not recycling your money quickly enough, you cannot do as much pioneering as you would probably like to.

**Andrew Mitchell:** "Pioneering" is a geographical concept. It is about going to the more difficult places and making more difficult investments. "Patient" is more of a financial requirement. It is that they do not require a full commercial return. They can therefore afford to take a longer perspective than many commercial entities can do.

Although you make an interesting philosophical point about the inherent contradiction between patience and pioneering, in this case, through BII, we are able to get a combination of exactly those two things, to the great benefit of the investments we make and the people we are trying to serve.

Q345 **Nigel Mills:** If you were investing in the UK, you would not say that infrastructure was risky. That would be among the low-risk things you would want pension funds to be doing. Yet a lot of what BII does is infrastructure investing in much riskier jurisdictions. Is that a situation where you want BII to be patient and remain in that infrastructure investment for a long time or should it be investing early, getting the infrastructure up and running, and then moving on to the next one? You would not naturally think of investing in mobile phone networks as being quite what BII should be doing.

**Andrew Mitchell:** You might. Thanks to a British grant to Vodafone, we invented M-PESA, which has quite extraordinarily benefited a number of developing countries and allowed them to leapfrog fixed banking in many circumstances.

To the point you were making about infrastructure, infrastructure is at the heart of development. BII is very focused on infrastructure, on financial services and on a category that is referred to as SMART, which includes a number of different types of investment. Those are the three core areas of investments. You would expect infrastructure to be quite a large element of that. When and how to exit from an investment like that is a matter for the experts and not a matter, in my view, for a humble Minister.

**Nigel Mills:** Even one with your background.

**Andrew Mitchell:** That is generous.

Q346 **Chair:** Should BII exit its investments that do not have a clear development objective and/or do not align with the priorities of the UK



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Government?

**Andrew Mitchell:** These are investments they made before those criteria changed.

**Chair:** Yes.

**Andrew Mitchell:** It goes back to my last answer to Nigel, a moment ago. Exiting these investments might be the right thing to do, but I would leave it to the experts to determine whether and when they did so.

Q347 **Chair:** I have been quite concerned that we have asked the chair a couple of times when she is looking at exiting from fossil fuel investments and she would not even give us a timetable for that. What are your thoughts?

**Andrew Mitchell:** She is right not to give you a timetable because that would then fetter her ability to get the best value from realising that investment.

Q348 **Chair:** This Government, this Prime Minister and a previous Prime Minister have given timetables for things like that. Why is it okay for our Prime Minister but not one of the organisations we fund?

**Andrew Mitchell:** For not investing in fossil fuels in the future, yes, of course. If you hold that investment, which was probably entered into before, when the rules were different, there might well be a case for exiting from it, but you should not exit from it at an artificially low price because you are allowing the timing to drive you to do so.

Q349 **Chair:** We were not saying that. We were asking whether you would exit all fossil fuel investments by 2030, 2050 or 2070. It does not seem that unreasonable to set a goal, particularly when these policies are at odds with the UK Government.

**Andrew Mitchell:** It would not be unreasonable—if the Committee thought this was a good idea, we would certainly look at it—to send an indication about when you were going to exit from these investments.

**Chair:** It is an intention, isn't it?

**Andrew Mitchell:** I would absolutely not want to set a specific timetable, which would then drive down the value of those investments for market reasons. You have to allow the experts to decide whether and when they do it. In terms of giving additional guidance, which is what I think you are saying, Chair, that would be quite well worth looking at.

Q350 **Chair:** The counter of that would be that one of your objectives is climate change, not making profit. Protecting the profit rather than protecting the planet, by not making a clear indication of withdrawal, would seem to be tripping up what you are trying to achieve.

**Andrew Mitchell:** There is not necessarily a contradiction between those two things. A lot of the green investment we are undertaking creates a



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revolution in terms of employment. It is possible to make profit and to save the planet. Quite a lot of investments demonstrate that.

Q351 **Chair:** I agree. Do you have a percentage for green investment for BII?

**Andrew Mitchell:** It is 30%, is it not? I think it is 30%, but, if I am wrong about that, I will write to you.

Q352 **Theo Clarke:** How does FCDO ensure that investments are socially responsible and do not have unintended negative consequences?

**Andrew Mitchell:** It does so by laying down clear criteria for investment by BII to take place.

Q353 **Theo Clarke:** Open Democracy reported that BII holds at least 20 investments in fossil fuel companies, which includes Dangote Industries, a conglomerate owned by Africa's richest man. What is FCDO's view on this investment? We are slightly concerned about the accusations that a company in the group has been causing serious environmental damage.

**Andrew Mitchell:** The investments will have been made according to the instructions from the shareholder at that time. Without looking specifically at the investments, I cannot tell you whether they would be allowed today. We are quite clear, as the shareholder, about what criteria apply.

Q354 **Theo Clarke:** Let me clarify, then. Should BII be investing in businesses owned by such elite businessmen and businesswoman?

**Andrew Mitchell:** It is not necessarily who owns them, so long as they are lawfully owned. It is what the impact will be of these investments in terms of the requirements and instructions we have given BII about its investment policy.

Q355 **Theo Clarke:** How is FCDO working with BII to adapt its investments in fossil fuels to align with the UK Government's net zero strategy?

**Andrew Mitchell:** The net zero strategy is extremely important, and we expect all investments to comply with the Paris agreement in terms of 2050. As I said earlier, the way in which these investments are made is the subject of the instructions the shareholder gives to the board of BII. That is the right balance, and the Foreign Office strikes it.

Q356 **Theo Clarke:** In June 2022, the World Bank's International Finance Corporation announced that it would not resume investments in fee-charging kindergartens and private schools because it believed that such investments would exacerbate inequalities and have unintended and undesirable spill-over into the public sector school system. What is your view on that? Are these investments socially responsible?

**Andrew Mitchell:** BII does not invest any more in primary or secondary education. It limits it to tertiary education.

Q357 **Theo Clarke:** What is your view on BII's investments to the China



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National Investment and Guaranty Corporation? We note that it has links to China's belt and road initiative.

**Andrew Mitchell:** I suspect that is a co-investment in a third country. If it is in accordance with the investment rules given by the shareholder, I would not wish to criticise it. I would need to know more about the nature of the structure in order to give you an immediate view.

Q358 **Chris Law:** On all the points Theo has quite correctly raised, there are serious questions around them. This goes back to the earlier point. I could take any one of them: private schools, in which you no longer invest although you used to, fossil fuels, where you still have 20 investments—I mentioned Mozambique earlier—or China's belt and road initiative, which is causing grave concern for your own colleagues as well as those in the US and Europe in terms of future security.

Is that not the key argument? These are political decisions that need to be made—before investments are made—by somebody from the Foreign Office, such as you, on the board, because all those things may well have been picked up much earlier, before the decisions are made, rather than waiting to be made by a board that has no direct relationship with FCDO and that has not considered the political consequences of those decisions.

**Andrew Mitchell:** You said that the political consequences of these issues should be thought through, and you asked whether it would be better if someone from FCDO were on the board. I agreed with all of the preamble to your point until you said that there needed to be an official on the board. For the reasons I have set out, I do not think that would be an advantage.

Q359 **Chair:** What is the solution, then?

**Andrew Mitchell:** The solution is in the terms of the shareholder agreement with the board of BII and what its instructions are for investment—that is, what it can and cannot do. That is the point where you address these political points.

Q360 **Chris Law:** On that note, Andrew, you are saying that the UK Government is backing investment in fossil fuel companies, despite the fact that we have signed up to the Paris climate agreement. We are quite happy to invest in businesses owned by, for example, the wealthiest man in Africa. We are happy to invest in private schools until that is published publicly, and then there is a withdrawal. We are also happy to give away security—real security issues now, given the Chinese belt and road initiative. Is that correct?

**Andrew Mitchell:** No, I disagree with all of those points. The fact that Mr Dangote is a very wealthy man does not obviate our ability to do business with him and to drive forward investment. If he is investing or co-investing with BII in an industry where BII, perfectly properly, through its shareholder agreement, is investing, the fact that he is very rich seems to be quite an encouraging point.



**Chris Law:** That is just one example.

Q361 **Chair:** It is meant to be additionality. This is development money. This is meant to be this pioneering money that goes in and then attracts other investors. It should not be partnering up with very rich people in the beginning.

**Andrew Mitchell:** That goes to the nature of the investment, not necessarily the co-investor. For that reason, targeting Mr Dangote because he is very rich, and therefore not working with him, is not really a sensible objective.

Q362 **Chair:** Some of my constituents are very poor and they want to know that, when they are making the investment in development, it is going to help the poorest in the world, not to increase the assets of one of the richest people in the world.

**Andrew Mitchell:** Of course, that is correct, but you need to look at the outputs of the investment rather than, in the case of Mr Dangote, the nature of the investor, so long as it is lawful and legal.

Q363 **Chair:** Are you able to do it without my taxpayer's pound?

**Andrew Mitchell:** You need to look at the outputs from it. Our constituents want to see that, when British taxpayers' money is invested, the return on that money is delivering the results they expect to see. That is exactly right.

Q364 **Chris Law:** Equally, Andrew, a lot of taxpayers want to see that we are not complicit in investing in climate catastrophe, which we have been doing through BII. Neither are they going to be happy about investing in private schools for all these years. We do not have someone there saying, "Hold on a minute. This is not correct. We cannot be doing this. It might fit some of your criteria in terms of investments, but that is a politically bad choice".

**Andrew Mitchell:** I refer you to my earlier comments. They do not invest in primary and secondary schools.

**Chris Law:** They have, though.

**Andrew Mitchell:** They have, but they do not now.

Q365 **Chris Law:** Who made that decision, then?

**Andrew Mitchell:** It was the shareholder. The criteria have changed.

Q366 **Chris Law:** If you were on the board, with the shareholder, would you not turn around and say, "No, this is not something we will entertain"?

**Andrew Mitchell:** That would be quite wrong because that would be an over-mighty official as a member of the board exercising external constraint on what has already been laid down by the shareholder.

Q367 **Chris Law:** That is the nub of the problem. We are all elected here to



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make sure that money is spent prudently, cautiously and carefully on behalf of the taxpayers. This is taxpayers' money.

In my view—tell me if I am wrong—this must be the only organisation where we are not involved directly in saying, “This is a bad investment” or “This is not best value for the taxpayer because of the long-term consequences.” Whether those are climate change, private schooling or whatever else, it is a big mistake. I do not understand why we are still keeping this separate when, in every other part of every other Department, we are heavily involved.

**Andrew Mitchell:** I beg to disagree completely. You are saying that we should put a Foreign Office official on the board to override the terms and conditions laid down in the shareholder agreement in a properly run business with financial experts. The idea that you would put a Foreign Office official on the board to exercise a superior judgment and effect would be completely wrong for the reasons I have set out.

**Chris Law:** There is nothing superior about—

**Andrew Mitchell:** For the reasons I set out earlier in my answer to the Chair, that would be quite wrong. The way in which we exercise that control is as the shareholder laying down, in a clear agreement reached with the board, what it can and cannot do. That is the way you do it. You do not give flexible judgment to a Foreign Office official going on the board as a different class of director on the board with different influence. You would never do that.

Q368 **Chair:** Minister, we are pretty certain that BII is still investing in K-12 schools in Tunisia and Morocco. When did this change happen?

**Andrew Mitchell:** My information yesterday, when I was looking at this, was that BII does not invest in the primary and secondary school sector now.

Q369 **Chair:** It might have pulled out yesterday, then. Could you check?

**Andrew Mitchell:** It is not as of yesterday. That was when I asked the question.

**Chair:** Our information is a couple of days before that. Could we speak after this to try to find this out? I am backing my team here.

**Andrew Mitchell:** I will write to you on that issue as well.

**Chair:** We will give you the details.

Q370 **Theo Clarke:** When BII subcontracts financial intermediaries to invest UK taxpayers' money, does it also subcontract its legal, ethical and development responsibilities to those intermediaries? Who is ultimately responsible in those cases?

**Andrew Mitchell:** On intermediaries, let me be clear that investing via intermediary funds enables BII to achieve wider and deeper reach into





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some markets than solely through its direct investments, to provide smaller levels of financing more effectively through these intermediaries, to raise standards in the wider market, to support the development of local institutions and to mobilise other capital. That is at the heart of the argument. That is why intermediaries play an important part in this.

Q371 **Theo Clarke:** What is your view on BII having spent £39 million of the ODA budget in 2022 on fees to financial intermediaries?

**Andrew Mitchell:** It is to drive forward precisely those four objectives that I just set out.

Q372 **Theo Clarke:** What are the potential risks of an ex-BII employee working as a fund manager for BII?

**Andrew Mitchell:** If he is a fund manager for BII, he is clearly still part of BII.

**Chair:** As an intermediary.

**Andrew Mitchell:** That is a matter of the rules and regulations governing that activity.

**Chair:** You are comfortable.

**Andrew Mitchell:** It depends on what the rules and regulations are.

**Chair:** That is a good answer.

Q373 **Pauline Latham:** FCDO has said in written evidence that site visits are an important element of BII's engagement with its investments. How reliable are such visits by BII or FCDO in assessing an investee company's operations?

**Andrew Mitchell:** That is the system of accountability they would use. We would rely upon them to exercise the right degree of oversight. All the indications are that they are very expert in doing that.

Q374 **Pauline Latham:** What assessment has FCDO made of Feronia, a palm oil business in the DRC, which exposed workers to dangerous chemicals and pesticides, and dumped untreated industrial waste?

**Andrew Mitchell:** That was an extremely complex and difficult investment that started out well in terms of investing in the DRC, which, as you and I both know, is an exceedingly difficult market. It certainly fulfilled the pioneer criterion.

It is an investment that BII had great difficulty with and now no longer has. The best thing would be for me to write to the Committee with an update on that specific investment because I do not keep the details at my fingertips. My understanding, from my memory, is that it no longer holds that investment.

Q375 **Pauline Latham:** What about BII's investment in Nairobi Women's





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Hospital, which detained patients who could not pay their bills?

**Andrew Mitchell:** There has been a significant issue there, which I believe has now been addressed. BII intervened to change the management. Again, if you wish, I will give you an update on the changes that have been made. That particular investment, from memory, was indeed the subject of valid criticism and steps have been taken to put it right.

Q376 **Pauline Latham:** What discussions have you had with BII regarding these investments? What actions has FCDO taken to hold BII to account on these?

**Andrew Mitchell:** Both of these precede my time, but, certainly, in respect of the Nairobi investment, action has been taken. When I write to the Committee with the details and update you on that investment, I suspect you will see that the system worked well in tackling the difficulties that have taken place there.

Q377 **Chair:** In both of those examples, from memory, it was charities or journalists that uncovered the failings that were going on, which led to the action being taken. Does it not concern you that it was not FCDO officials or BII that sent up the canary?

**Andrew Mitchell:** I do not know whether that is the case, particularly on the DRC investment. That was always a fraught and difficult investment. I do not know whether that was the case, but we strongly encourage scrutiny. As a result of the advice I may receive from your Committee, I hope we will be able to do more to underline the importance of transparency in that respect.

Q378 **Chair:** Things go wrong. It is about having the safeguards in place to pick it up at an early enough stage, isn't it?

**Andrew Mitchell:** Yes. Openness and transparency is part of that accountability.

Q379 **Chris Law:** Talking about openness and transparency, I thought we would come on to the topics of theft and fraud. On 17 March 2023, you stated in a parliamentary written answer that BII has not written off any of its investments due to fraud in the past decade. However, we were told by BII that \$25 million had been lost in an Abraaj Group fund. Would you like to correct the record, Minister?

**Andrew Mitchell:** In respect of Abraaj, the BII, which was then CDC, played a pivotal role in uncovering and blowing the whistle on that fraud. The lessons learned by BII and the wider industry have led to strengthened processes and practices, which significantly reduce the risk of someone being able to commit such a fraud again.

I am not aware that, in the end, some money was not recovered. My understanding is that all the money was recovered.



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Q380 **Chair:** Which are you saying is right and which is wrong? Was the written answer right and the chief exec wrong?

**Andrew Mitchell:** The written answer was correct. The money was not lost; it was recovered. From memory, the written answer was about money lost through fraud. This was a fraud that was exposed by BII. There were others involved.

Q381 **Chair:** That is different to what the chief exec told us about a month ago.

**Andrew Mitchell:** Perhaps I should also clarify this for you, but that is my understanding. I am sure the answer will have been correct. The confusion here may be that there was indeed fraud, but it did not lead to financial loss. I want to emphasise that BII was the whistleblower on that issue.

Q382 **Chris Law:** You have left me a little confused now. The next question, which is quite correct, is this. When did FCDO find out that BII had lost \$25 million to the Abraaj Group?

**Andrew Mitchell:** The premise of that may be inaccurate. I do not think the money was lost, but I will clarify that for the Committee.

Q383 **Chris Law:** Can you let me know how it has been disclosed and reported as well, please? Could we have the full details?

**Andrew Mitchell:** Yes.

Q384 **Chris Law:** How was BII allowed not to report its investments in Abraaj externally, given that it had committed taxpayers' money to that investment? Ordinarily, you would have full disclosure.

**Andrew Mitchell:** I am not aware that there has not been full disclosure, but certainly this fraud by Abraaj is quite well known. It led to legal and criminal charges. BII blew the whistle on it. I am not sure that money was lost, and I am not sure what lacuna there is in terms of accountability. If the Committee wishes to suggest that there is such a lacuna, I will certainly look at it.

Q385 **Chris Law:** How has FCDO ensured that BII has strengthened its controls in response to that case?

**Andrew Mitchell:** There will have been a lessons learned exercise conducted, and we always ensure that, whenever anything goes wrong, we try to learn the lessons of it. BII and its board are good at doing that. I hope, therefore, that one of the results of the transparency recommendations that may come out of your Committee, to which I committed in the Chatham House speech, will be to help to underscore that.

Q386 **Chair:** On that, I am not comfortable with just lessons learned. Have you seen what they have done to safeguard against things like this?



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**Andrew Mitchell:** I asked the question about whether the safeguards are adequate. Of course, this occurred while I was out of Government. I have come to this as a historic case. I have no reason to believe that the systems BII has put into operation are in any way inadequate.

Q387 **Chris Law:** There is one last question from me. Are there any other instances of mismanagement of UK taxpayers' money through BII that we should be made aware of?

**Andrew Mitchell:** No. To the point about due diligence, BII's process for conducting commercial due diligence on potential investees goes further than that of commercial investors, particularly regarding the expected development impact and environmental, social and governance aspects of an investment proposal.

BII also has a range of formal oversight mechanisms. Fund investments are risk-assessed by BII on a quarterly basis, including on development impact, environmental, social and business integrity requirements and commercial risks. In addition to that, the Foreign Office's internal audit and investigations department recently conducted a fraud assurance review of BII in 2021, the recommendations of which have already been implemented or are on track to be implemented this year.

There is quite a strong argument that, as the sole shareholder of BII, the Foreign Office interest is represented via the BII board, which delegates responsibility for approving and overseeing investments made by the company to an experienced investment committee and team, and of course that work includes due diligence.

**Chair:** Minister, I am going to end it there. Thank you very much. We have a lot of information to follow up with you on and some stuff that we will also pass on to you. We are really finding out a lot around BII. The vast majority of it is very good, but our job is to scrutinise and to strengthen. We will be coming to you with some very concrete recommendations in the coming months—I wanted to say weeks, but we are working on it as quickly as we can.

This was the final session we are having. Thank you very much for that. If you are able to send your responses back in a timely manner, that would really help us get our report to you in a timely manner as well. Thank you very much for your time. Did you want to say something before I finish?

**Andrew Mitchell:** I was just going to say that we certainly will try to get a response back in a timely manner. I just want to reiterate what I said to you when you first called me before you when I went back into the Government. I regard the Committee not as the other side of the fence but as an absolutely critical tool in making sure that in Britain we do international development better. I am very much looking forward to receiving your report.



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**Chair:** That is most appreciated. Thank you very much. Thank you, Committee.