

International Development Committee

Oral evidence: Alternative Financing Options for International Development, HC 614

Tuesday 26 March 2024

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Members present: Sarah Champion (Chair); Dr Rosena Allin-Khan; Mr Richard Bacon; Chris Law; Nigel Mills; Mr Virendra Sharma.

Questions 1 - 97

Witnesses

[I](#): Philippe Valahu, Chief Executive Officer, Private Infrastructure Development Group; Anne-Marie Chidzero, Chief Investment Officer, FSD Africa; and Louise Walker, Head of Private Sector & Capital Markets Department, MOBILIST.

[II](#): Ian Mitchell, Co-Director Europe and Senior Policy Fellow, Centre for Global Development; Romilly Greenhille, CEO, Bond; and Evie Aspinall, Director, British Foreign Policy Group.

Examination of witnesses

Witnesses: Philippe Valahu, Anne-Marie Chidzero and Louise Walker.

Q1 Chair: I will start this International Development Select Committee one-off session into alternative finance options for international development. It is a topic that we keep on having to come back to with the reduced budget but also the dramatically increased demand around the world. We are very pleased to have two panels today. I will ask the first panellists to introduce yourselves and say a little bit about your organisation and your work in this area.

Anne-Marie Chidzero: I am the Chief Investment Officer for FSD Africa Investments, which is the investing arm of FSD Africa. We are a specialist development finance institution that is focused entirely on enabling finance on the African continent. We work through the lens of the financial sector, trying to strengthen the financial sector to ensure that it is allocating capital to where it is needed. We are particularly focused at the moment on climate finance, biodiversity loss, gender equity, fragility and vulnerability.

Philippe Valahu: I am CEO at the Private Infrastructure Development Group, which was set up 21, 22 years ago to develop and fund infrastructure projects in Africa and Asia. In the product lines that make up the Private Infrastructure Development Group we cover the full lifecycle in the development of infrastructure assets and the upstream technical assistance to the feasibility, the project development, providing various forms of debt or guarantees to ensure that the project happens. We are purely focused on infrastructure.

Louise Walker: I am Deputy Director of the Private Sector & Capital Markets Department for FCDO. I am here to speak on MOBILIST, which is an in-house flagship public markets programme. FSDA and PIDG sit within my portfolio.

Q2 Nigel Mills: Anne-Marie, I will start with you. As the Chair said, we know the importance of alternative forms of finance to try to bridge the finance gap. How do you see FSD's role in supporting us achieving bridging that gap?

Anne-Marie Chidzero: We are focused on addressing failures in the way the financial system works on the African continent. As our name says, it is financial sector deepening. We are looking at how do you deepen the financial system, how do you create better funnels, better pipes to get the capital, particularly to small businesses, low-income households and some of the sectors that I named, biodiversity, climate change and so on. Strengthening the financial system enables more finance to get to where it is needed to address poverty alleviation. As an organisation that is funded by the UK Government, we are enabling more of that capital to get to where it is needed and also ensuring that there is a multiplier



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impact of more finance because we are doing it through the financial sector.

Q3 Nigel Mills: You are not providing the finance yourselves. You are trying to create the plumbing that other people can put funding through?

Anne-Marie Chidzero: That is correct, we are creating the plumbing. As an organisation, we have a number of tools at our disposition. We can provide technical support, capacity support to policymakers and regulators. As you create these new funnels, there needs to be space in which they can operate, so we support the policy and the regulations that open up the market. At the same time we are backing some of the financial innovation, the new models that will help us get to SMEs, help us finance nature, for example, and that has benefit to communities. We work with partners to create those funnels but at the same time we are working on the policy side, so the investment and the enabling environment to policy support.

Q4 Nigel Mills: Is it your view that if you get the plumbing right there are viable projects that private investors can invest in and make a return on and this is all feasible or is it not quite as simple as that?

Anne-Marie Chidzero: That is actually our view. We have currently a portfolio of about 93 million and about 19 investments. We have been able to bring along with us other private investors or financiers into the structures that we have backed. We have a multiplier impact of about 2.2 of the capital that we deploy but, more importantly, these intermediaries are extending finance to SMEs and so there is an additional drive on long-term finance. We have estimated that this is about 1.2 billion so far with the types of intermediaries that we have supported.

I will give you an example. We have supported the finance trying to help local currency finance to the bond markets. They anchor the corporates or financial institutions that are serving SMEs or operating in the energy space and the agricultural space to help them raise local capital. By backing that intermediary, we help them provide more local financing by capturing local pools of capital.

Q5 Nigel Mills: How do you ensure that once you have put the plumbing in place it is used to enhance all the things you want to enhance rather than, "I can now invest in this area and I can clear this whole area and grow stuff I can sell at a huge profit, that is not quite enhancing nature or the biodiversity but it is the best return"?

Anne-Marie Chidzero: We are very specific about who we partner with and we are very active. We are based on the continent and so we have a very strong network there. We engage with those partners to define, to work through the strategies but also sit on their boards. We help them drive the outcomes that we have agreed that we want to achieve by backing a novel solution in the market. We adhere to our own guidelines and policies and we are also driving issues such as natural capital disclosure. Through our technical assistance work, we have worked with a



lot of financial institutions to get them to understand how their financing could impact on nature and have agreed on how to disclose for that consistent with the taskforce on natural capital. We are very actively engaged with these partners to ensure that the funding that we are allocating is leading to the outcomes that we want to see with the impact on jobs, the environment and vulnerability.

Q6 Nigel Mills: Thank you. Philippe, I think I read from your annual report that 58% of the finance you mobilise is private investment. How do you go about attracting that? What is the deal that they are looking for that you give them?

Philippe Valahu: If you think about the different product lines—and I talked about sustainability to cover the full lifecycle of an infrastructure asset—it begins with the identification of a project, working potentially with a local developer to do the feasibility, take it to financial close and through construction. What we are essentially doing is derisking the projects and demonstrating that you can develop projects in sub-Saharan Africa or south-east Asia, as we do, in a manner that will attract the private sector. One of our key fundamental roles up front is the project development line that takes the projects through construction. We may at times have to operate the transaction for a year or two but we are always looking to exit to bring in the private sector, having derisked it.

Q7 Nigel Mills: I suppose the derisking is being confident not just that this project will work and have a revenue stream but that it will get to me and not be siphoned off or taken away from me, and that there are predictable flows here that I can be confident in.

Philippe Valahu: Absolutely. When we are developing a project, we have a very activist—and I think that is the way to describe it—role in the governance, in the function that we describe as health, safety, environment and social. We have people sitting in the management or on the boards to ensure that those standards are being adhered to. Typically, even post construction we have teams that continue to provide services to them because they are trying to become best in class, in particular the application of health and safety standards.

Q8 Nigel Mills: You are working in some risky or unstable political climates. Do Governments buy into that if they mess this up there will be no more? If we are attracting investment for infrastructure that needs to work for a couple of decades, if we wreck the project after three years, we might save a bit of money in the short term but we will be getting no more in the long term. Do people understand that this has to be viable?

Philippe Valahu: To some extent, yes. To a large extent, if you consider the fact that 600 million people do not have access to electricity on the continent and a lot of the transactions we are doing are in the upgrade space to provide first-time access for people who have never had it. They realise that this is a good that people need because if you are doing an upgrade project in Sierra Leone in the north, targeting 20,000 people



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who have never had electricity before, providing electricity and cold storage to clinics that have never had either, they begin to realise that this is a critical piece that you want to maintain. There will be attempts to fiddle with the price; inevitably that happens. It is always too high and that is what we have to uphold, I think.

Q9 Dr Rosena Allin-Khan: PIDG was set up in 2002. How have you seen the role of your organisation change within the development sector over the last 20 years?

Philippe Valahu: When it was set up 20 years ago by the UK and two or three other likeminded European Governments, it was to address a gap in the financing architecture in sub-Saharan Africa first and foremost. That was the lack of long-term debt available to fund infrastructure projects, the inability to source local currency solutions and the unavailability of what we call patient capital, which I was just responding to, which is the early stage project development. If you fast forward 21, 22 years you still see a huge need for that patient capital. It is the most difficult to source today, but what has changed is that the climate agenda obviously has come to the forefront and certainly the forefront of what we do and the lens through which we look at every single investment. That has changed.

The funding architecture has changed dramatically and we have seen the pressure as negative pressures on IDA, which means you are seeing capital that would not necessarily have come in the numbers that are trying to come in today, and I am thinking philanthropies. That is a fundamental change over the last 21, 22 years. As you will notice, there is a massive rethink today of how the MDBs operate. That is also a change because they have always been taken for granted and I think that there is a desire today to see some significant changes there.

Q10 Chair: Philippe, I thought you were going to mention China because isn't China heavily in this space and wouldn't that be seen as patient capital?

Philippe Valahu: No, not really because it is looking at the belt and road initiative or whatever it is calling it today.

Chair: It is much bigger schemes.

Philippe Valahu: They are fairly significant 500 million, 1 billion-type transactions. We have just launched East African Marine Transport, which is the first ever vessel on Lake Victoria that links Uganda and Tanzania. The total cost of that will be \$12 million, \$15 million, so the equity requirements are completely different than what you are suggesting would be the case with the China Inc-type projects.

Q11 Dr Rosena Allin-Khan: In contrast, MOBILIST was set up in 2020 and is due to run until the end of March 2026. How has the programme been so far?



Louise Walker: It is obviously experimental and early stage. We are trying to tap into public markets as a volume of finance. We like to say that MOBILIST tries to meet investors where they are because we know that 90% of institutional investors' portfolios are invested in stocks and bonds on public markets. If we are trying to leverage private capital at the scale that needs to happen, we think public markets is the way to do it. We have five transactions under our belt now, all quite different, and we are trying to demonstrate things like the ability, for example with Bayfront, to securitise portfolios of assets. Why that is interesting to us and why we think it has potential is it moves assets off balance sheets and sells them off essentially so there is more room for lending. We are excited about that because we think, as Philippe referenced, that this is a model that we can perhaps take to multilateral development banks and development finance institutions, using public markets as a transformative force at scale.

We are not there yet, so we are still in the first stage and first step. We bolster this with partnerships. We have partnerships with eight different stock exchanges around the world so far and that helps us with pipeline, building the relationship with the institutional investors on those stock exchanges, and working with them to develop transactions that are attractive to them in sustainable development. We underpin that with some technical assistance where we need to better understand something to structure a transaction as well as research. We are trying to embed this in a policy framework as well so that what we learn and develop through the MOBILIST effort we can take and develop and scale and hopefully others will take and develop and scale from our example.

Q12 **Dr Rosena Allin-Khan:** I would like all of you to answer but I will begin with Anne-Marie. This Committee published a report last September considering the role of British International Investment in providing development finance. What work is your organisation doing that is not already being done by BII?

Anne-Marie Chidzero: As I explained, we are very specifically focused at the financial sector. We are using a variety of instruments, the investment and the grants, to have a systemic impact on the way finance is allocated. We are focused on the failures of the financial markets. When we first started 10 years ago, the big issue in our markets was financial inclusion. 80% of African people did not have access to a formal financial service and operating in the informal sector, which was inefficient, costly and not serving them.

We addressed that particular problem, trying to drive the solutions, working with the financial sector players and the policymakers to open up the market. That requires being quite nimble and versatile and finding the right partners to bring about that change. There has been a lot of change, a lot of development and levels of financial inclusion have come down significantly. We were talking about 80% 10 years ago and I think



we are probably at 20%, depending on the country that you are focused on.

We are always moving with the way the market is moving and trying to drive finance at the frontier. Now we are seeing a real opportunity to work with African partners and UK partners to leverage some of the assets that the African continent has in its youthful population and natural capital—solar energy, wind power, forest, mangroves and communities. How do you get finance now to enable economic benefits to the community, the populations, by innovating some of these solutions? We work closely with the other development finance partners, the MDBs, but we are quite different in the sense that we are very focused on the financial sector and we help move it along at the same time.

Q13 Chair: Anne-Marie, what you are laying out before us sounds idyllic. Can you give us an example of an actual project that meets that utopia?

Anne-Marie Chidzero: It is not without its challenges; I have to be very clear about that. I will give you a couple of examples. I stand to be corrected but I believe we were instrumental in the issuance of the first green bond and the first gender bond on the continent. This was a very unique combination of our technical assistance and advocacy work. FSD Africa worked on designing the criteria for a gender bond and a green bond. We leveraged the partnership with a pitch to GuarantCo. We came in and supported the first issuance in Kenya, which was for student housing. It was a green bond and we designed with Acorn, the student company, the criteria that would make this a more eligible green bond and then pitched to GuarantCo Kenya to guarantee the issuance of that bond.

With the gender bonds, in 2018 I recall being on a panel talking about how do we drive more capital in the hands of women and how do we address the fact that women don't have access to finance. One of our board members was chairing the session and said that we need to issue a gender bond and we need to be very clear about how those proceeds are to be used. We looked again, using our technical assistance pool of funding, to design the toolkit in collaboration with BII and others, which led to the first issuance of a gender bond in Tanzania and there have been a couple more. I will give you one last example.

Q14 Dr Rosena Allin-Khan: That is okay. That is great, thanks. I was hoping to hear similar from Philippe and Louise, if I may, on BII. What is your organisation doing that BII does not cover?

Philippe Valahu: I will focus on three or four areas. We are looking at only infrastructure. We don't look at the other sectors. That has been the focus for the last 20 years and we don't shy away from that mission. It is the hard infrastructure—power, water, transport. It can include social infrastructure. Anne-Marie talked about student accommodation, which is one area, and housing could be another. There are derivatives of



infrastructure like cold storage for agriproduce or other things that may require cold storage. That is one area.

The second key area that we do that very few, if anyone else, are doing is championing the use of local currency through our own guarantee arm, which allows projects to be funded in local currency. We go a step further and we set up—as we have in Pakistan and Nigeria, and Kenya next month, hopefully—a local company that will do the guaranteeing that we normally do but now it is a local company doing it, to guarantee bond issuance by domestic corporate entities to fund projects. Student accommodation in Kenya is one example, but it is all about deepening the local capital markets to bring domestic institutional investors, pension funds, insurance companies into the mix.

One of the anchor investors in the Kenya one that we will launch next month is the Nairobi County pension fund, which is quite extraordinary when you think about it—to have them come into the mix and use some of its assets for the infrastructure asset costs. Those are the three or four areas that I think make it quite different.

Louise Walker: For MOBILIST it is a shorter and simpler answer, which is: public markets. BII is in the private equity space largely and this is all about public markets, which is a completely different space. I will leave it there.

Q15 **Nigel Mills:** Louise, if I ask my constituents what we spend our international development budget on, they would think it was feeding people or giving them medical care or such worthy things. They probably would not think we are engaging in quite complicated asset-based securitisation of £330 million in infrastructure bonds and loans. Can you explain what we are trying to achieve here and why this is a good thing to do?

Louise Walker: If we think about the programmes that feed hungry people or educate people or provide clean water, they are largely done through our ODA spend. Our ODA spend is limited and small. When we look at the scale of need for the SDGs around the world and the trillions we are falling short, the question arises: what else can we do? There is no amount of ODA in the world that will help us solve those problems and address those needs. Perhaps the complex securitisation of assets is one example, but this is really about how we get private capital to flow into emerging markets, developing economies to meet the existing and evolved development objectives, climate objectives and start to change how these things work. That is in part helping investors become more familiar with these markets. It is in part thinking about whether there are novel ways to do things that we may not have done before that are still attractive and still create a commercial return.

MOBILIST invests *pari passu* on commercial terms. This is not free money in the sense that we are not providing an ODA grant in that way, but the transaction we did in the listing on the Thai stock exchange was with a



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commercial Thai bank whose loans were all for micro, small and medium-sized enterprises, 70% women-owned businesses, mostly rural. If we are able to help institutions like that, that is directly using a public market transaction, which is a very new thing, and making a difference in rural communities and for women and businesses.

- Q16 **Nigel Mills:** I think I get the model that projects are quite risky at the start and then once you have got them running you can effectively extract your risk capital and remarket it, somebody else can put in some money and we can go and do the same thing again and keep rotating the money. That all seems quite reasonable, but do you risk doing a lot of this in relatively well-off countries in the scheme of things and this model just does not work in the poorest communities and the poorest countries? If we dig a well in a poor village, they are not going to pay for the water, so we can't do that there. How do we ensure we are having impact where it is most needed not where it is most easy?

Louise Walker: It is a really good question. In Bayfront, the assets that we looked at were green, sustainable assets only. We did not just look at the whole portfolio; we looked at very specific parts of that portfolio. I was talking about the ambition or the vision to be able to take this to multilateral development banks or development finance institutions, who have all off this stuff sitting on their balance sheets right now. If we are able to use a public market mechanism to move some of that stuff off, it is the multilateral development banks and development finance institutions that are able to make new investments, originate new projects that target the least developed countries, obviously poor people, gender, and do that work. It is helping them essentially get more mileage out of what they are able to lend.

- Q17 **Mr Bacon:** You recently made an investment in an asset-based securitisation of £330 million. My brief says that it was to anchor an asset-based securitisation of £330 million in infrastructure loans, and Mr Mills referred to this earlier. Can you talk us through what were the £330 million of assets?

Louise Walker: Bayfront is the name of the transaction. Our total investment was £4 million in that, so relatively small, and essentially its business is buying up portfolios of assets. We were helping it look at its sustainable development assets and spin those off with other partners. PIDG was a part of that transaction.

- Q18 **Mr Bacon:** When you say spin them off, do you mean turn them into securities that could be sold on the public market?

Louise Walker: Yes, exactly.

- Q19 **Mr Bacon:** Do you mean equity securities or do you mean debt securities?

Louise Walker: The securities are on public markets—



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Mr Bacon: I know what a security is. I am just asking if they were debt or equity?

Louise Walker: I don't know the answer to that question and I will get back to you.

Q20 **Mr Bacon:** What were the assets behind them?

Louise Walker: There was a huge portfolio of infrastructure assets, essentially. We were looking at green and resilient infrastructure.

Q21 **Mr Bacon:** Who owned these assets before they were taken and securitised?

Louise Walker: Mostly commercial banks.

Q22 **Mr Bacon:** There were already extant loans that had paid the borrowing entity to develop and create these assets. Are they local commercial banks or are they foreign commercial banks?

Louise Walker: They are a range of commercial banks. Bayfront is based in Singapore, so it is basically a range of different commercial banks that Bayfront works with.

Q23 **Mr Bacon:** Bayfront is a portfolio holder on behalf of a range of these commercial banks. Bayfront is based in Singapore and there is £330 million of assets that we are talking about, to which you put in £4 million when it was securitised. Before it was securitised there was still £330 million of assets but you were not involved. It was the commercial banks that had originally financed it. Those commercial banks came from where?

Louise Walker: I can get you—

Mr Bacon: You don't know?

Louise Walker: We do know. I just don't off the top of my head have the full list because there is quite a long list.

Mr Bacon: How many of them are domestic?

Q24 **Chair:** Louise, are you able to detail this in writing to us?

Louise Walker: Yes, there is no problem. It is quite a long list.

Q25 **Mr Bacon:** I expect it would be. Before it was securitised, was it akin to a syndicated loan where lots of banks put in a small amount?

Louise Walker: I can give you the exact breakdown of all the assets, where they came from, how they originate—

Q26 **Mr Bacon:** I understand, but my question is: was it akin to a syndicated loan? Was it lots of banks putting in a relatively small amount?

Louise Walker: It was different. There were different originators. I will write to you and get the exact—



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Q27 **Mr Bacon:** Different originators. You mean it was more than one loan or—

Louise Walker: More than one bank, I mean.

Q28 **Mr Bacon:** Yes, I understand it is more than one bank but what I am asking is: was this package of £330 million of assets itself funded from many, many different sources or was it one thing?

Louise Walker: It was one thing. There was a number of things.

Q29 **Mr Bacon:** It was a whole series of things. Bayfront's job was to bundle it all together and say, "Look, we could turn this into a securitised product that we could then sell to a range of investors"?

Louise Walker: Exactly.

Q30 **Mr Bacon:** It was freeing up the commercial banks because they get their money back and they would be able to do something else. It would be interesting for me to know where they were from. Were they mostly global, mostly foreign banks, mostly domestic banks? Was this £330 million all in one jurisdiction?

Louise Walker: It was not all in one jurisdiction. By "domestic" if you mean UK banks—

Q31 **Mr Bacon:** No, I mean was it all in Tanzania, was it all in Kenya?

Louise Walker: No.

Q32 **Mr Bacon:** How many countries were represented by this bundle?

Louise Walker: I can get you the answer to that but it was quite—I don't have the number of countries off the top of my head.

Q33 **Mr Bacon:** If it is 120 banks with £3 million each making 360—I am making the numbers up as I go along but you get my point. If it is roughly 100 banks from 53 different countries with different pieces and it is all being bundled together in a parcel to be securitised, that is information that I think would be very useful for the Committee to have in detail.

Louise Walker: I am very happy to do that.

Q34 **Mr Bacon:** You make a lot of reference to financial intermediaries in the packaging up of this. Who are these financial intermediaries? Are they all based in Singapore, are they domestic to the countries that we are talking about that are receiving the infrastructure finance or what?

Louise Walker: It varies on the transaction. Do you want to talk about Bayfront in particular or do you want to—

Mr Bacon: The financial intermediaries who are helping Bayfront presumably.



Louise Walker: Yes. There are financial intermediaries helping Bayfront. As we look at these transactions, we get commercial and legal advice as we do the due diligence on those deals and look at exactly what the terms and conditions are of the transaction we are getting involved with. In some cases, if we are a shareholder we would be a shareholder with the same rights as other shareholders. In another transaction we have been a limited partner, so it is a different type of relationship to the actual transaction. It varies by transaction but it is part of how we look at and do our due diligence on what is the information and reporting we are going to get, what are the asset classes. All of that kind of thing is part of how we look at that.

Q35 **Mr Bacon:** At the end of it, £330 million is the number that is mentioned, is that all bundled up into one security—you are going to tell us whether it is a debt or equity—that is then launched upon a public market somewhere that I, as an investor, or a local institutional investor could then invest in, or is it a whole series of things that they are investing in?

Louise Walker: You can do a series of things.

Q36 **Mr Bacon:** I am asking what was this.

Louise Walker: Sorry, I don't understand.

Mr Bacon: I am not asking what you can do. I am asking what was this. Was it one entity?

Louise Walker: It was a series.

Q37 **Mr Bacon:** How many?

Louise Walker: I will get you the answer to that.

Q38 **Mr Bacon:** What was the total value of the fees associated with this £330 million?

Louise Walker: I will get you the answer to that.

Mr Bacon: Okay, thank you.

Q39 **Chair:** Philippe and Anne-Marie, do you use financial intermediaries as well?

Philippe Valahu: No, or very little. If you expand the definition of financial intermediaries to include, for example, the entities that I described that we set up in Pakistan and Nigeria, and now Kenya, to mobilise domestic institutional capital, you could say that is a financial intermediary because we are providing equity to launch and act as an anchor investor in that entity. In doing so, we have, as I said earlier, a very activist control. We will sit on the board, the credit committee or investment committee and we will impose from day one our standards for health and safety, measuring impact and additionality.

Chair: The reason that we are so interested in this is because when we



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had BII in front of us we were quite concerned about the level of scrutiny that it had and also the rates that the intermediaries were charging.

Mr Bacon: I am interested in the fees. The reason I am being annoying about it is because it is very different, I know, but in this country, we had an initiative called the private finance initiative that became very big indeed. It had outstanding obligations in the hundreds of billions and the professional fees associated with that were very startling. There was one financier who set up a PFI company and was paying himself a salary of £8.2 million a year. I want to know where the money has gone and to whom and for what.

Chair: Let me pause there. Virendra, over to you.

Mr Sharma: Sorry.

Mr Bacon: No, I am finished.

Q40 **Mr Sharma:** Anne-Marie, what are the challenges that women face in accessing private development finance?

Anne-Marie Chidzero: There are many challenges. One can think about social biases. There is a pool of women who are asset allocators who struggle to raise finance and we are trying to support them to do that. There are also rural women, the microbusinesses that struggle to access finance or maybe they are not as literate from a digital technology perspective or maybe there is bias in the way the financial institutions reach them. There are issues of being able to go and access finance because they are running their businesses. Women face multiple challenges.

If we are trying to build a financial system and we are saying that 50% of our population is not participating in allocated capital, does not have access to capital for a number of reasons, we need to fix that. We can't deepen a financial system if we are not being inclusive of everybody in that system, so we are looking at ways in which we change that. We initiated a facility where we will be backing women allocators. These women allocators tend to be backing women-led businesses, whether they are microbusinesses, early stage companies. It is beginning to address the biases in the financial system.

Q41 **Mr Sharma:** How are you ensuring that FSD Africa's investments are gender-inclusive?

Anne-Marie Chidzero: We are very gender-intentional. If you look at the profile of our organisation, it is gender-neutral in the sense that there is gender equity. Within our investments we apply a gender intentionality lens, so when we are backing—

Q42 **Chair:** Sorry, what does that mean?

Anne-Marie Chidzero: Gender-intentional? We are looking at ways in which we can ensure that women are represented. If we are backing a



financial firm, we ask the questions: how many women do you have on the board; what are your employment practices; how do you make it inclusive so that women have opportunities? We ask those questions. We are also asking questions about how they are addressing the access to finance by women. We are very intentional about that.

I was going to tell you the story of a transaction that we are looking at in Sierra Leone, which is supporting the restoration of mangroves, in which women are very involved and participate. We are working with the communities to ensure that they benefit. We are very intentional about including the question of women and girls and how they will benefit or how they can make decisions about their financial choices.

Q43 Mr Sharma: Louise, as an FCDO programme, is there a requirement from the Department for potential investments to be considered with a gender lens?

Louise Walker: It is not a requirement for every single transaction but it is a requirement for the portfolio as a whole. I talked a little bit about the commercial Thai bank that was a very interesting transaction for us because it was about loans that this bank made to women-owned businesses. This is still in development so I can't name names, but we are working with an asset manager to do quite an interesting transaction that is completely gender-based. We are seeing for a number of institutional investors and asset managers who have young savers that these kinds of investments are increasingly in demand and attractive. We are looking at how can we tap into that with institutional investors who are looking at how to do more in this space.

Q44 Mr Sharma: Philippe, how do you ensure that the composition of your organisation is reflective of those you are trying to support?

Philippe Valahu: We have a team in the Private Infrastructure Development Group that looks at this. There are two aspects to it. Any transaction that comes through the system has to be submitted to what we call a clinic, which involves our sustainable development impact team in health and safety, environment and social. They have, which is rather unusual for many organisations, the right to veto transactions that come in because everything should be looked at through a gender lens and a climate lens. On gender it is about looking at transactions for potential gender-associated risks or gender benefits and potential benefits and, therefore, working with the investing companies or the companies we work with to ensure that they might make some changes to the project to reach the objectives for gender.

The other part that goes to the heart of your question is internally ensuring that we have the ability to attract and retain a mix of staff who reflect the countries that we operate in, in Africa and Asia.

Q45 Chris Law: Anne-Marie, I want to ask you. The White Paper that was recently published sets out its priority for going further to mobilise



international finance to tackle climate change and biodiversity loss. Can you tell us if private investment could be a driver for sustainability in low and middle-income countries to reach their climate goals?

Anne-Marie Chidzero: Going back to what we are trying to do in the financial system, we are trying to fix or address the failures or the challenges. Being at the frontier of finance, continually trying to drive finance the way it needs to go, we are now focusing on how you finance renewable energy sources, but particularly energy that is going to reach those who do not have access to the grid. We are testing different financing solutions for that.

I spoke about biodiversity restoration, which is very important for achieving our CO₂ targets, but biodiversity needs a lot more financing. We estimate that Africa needs about £220 billion a year to finance its climate agenda. It is only getting about £30 billion and of that only £4 billion is coming from the private sector. How are we going to raise that capital? We need to be able to create the conduits for more private capital to finance Africa's climate agenda.

Q46 **Chris Law:** What do you mean by conduits?

Anne-Marie Chidzero: We need to get the intermediaries—going back to the intermediaries—and the financial instruments so the products will finance a mangrove that will attract private capital to do that. We need to design those kinds of instruments. We are trying to demonstrate how you do that. How do you provide long-term finance to a project developer that is working with communities to preserve mangroves and to then generate the carbon credits? How do you do that in a transparent way, in a way where there is credibility around the carbon credits? When I say “conduits”, these are the solutions that we are working on with local partners to try to unlock finance and particularly finance from local domestic capital providers.

Q47 **Chris Law:** It sounds to me that we are miles off target and way behind in sustainable development for these countries. How do we accelerate that?

Anne-Marie Chidzero: How do we accelerate? That is a very good question and it is a challenge that we are taking on. As an organisation, we are able to work from a policy level as well as actually testing these solutions. An example is that we were the founder of the African Natural Capital Alliance, which is an alliance of African financial institutions, funds and other project developers to specifically figure out how we do this in the context of what we do or what they do in their own markets to get more finance to protect biodiversity. It is a big challenge and we are trying to get at it from different angles through the policy work, mobilising stakeholders, testing some of the solutions with local capital providers to demonstrate how you could do it.

Q48 **Chris Law:** Philippe, your most recent annual review highlights that 35% of your investments since 2002 have been in non-renewable energy. Are



you still investing in these businesses and, if so, by how much? How does this tackle climate and a potential biodiversity catastrophe? Can you tell me how you measure? Is there an independent monitor that looks at the structure of your own organisation? It seems to be all in-house, so how do you scrutinise yourself?

Philippe Valahu: The figures you referred to are obviously legacy projects that we would not touch today, so we would not be doing those projects, pure and simple.

Q49 **Chris Law:** Are you saying that now you don't invest at all in them?

Philippe Valahu: No, so we are doing renewables, which is solar power, wind and hydro. To some extent we are trying geothermal but it is a very tough sector. If you look at the numbers for 2023, which will be published in May or June, you will see a significantly very high percentage of power business is being done in the renewables space, but it is a tough sector and a very fragmented sector.

Q50 **Chris Law:** What does that mean?

Philippe Valahu: There are lots of participants in the off-grid and mini-grid space in Africa, which is where we are playing quite an active role. There are some operators who reach 2,000 people, larger platforms trying to reach 100,000 people, and there is everything in between. They can't be all operating, so it is very fragmented. There has to be some consolidation and, equally, it is that part of the equation that cannot find the early stage project development capital, which is missing. If you are developing one of those projects of, say, 50,000, you will be spending \$5 million, \$7 million, in development capital, which you hope to recoup after construction or after financial close, but it is a tough market.

Q51 **Chris Law:** You said you had a very high percentage in renewables. What is the percentage you are still investing in non-renewables and why?

Philippe Valahu: We are not investing in them.

Q52 **Chris Law:** Not at all; it is 0%?

Philippe Valahu: Yes.

Q53 **Chair:** I am pondering what you have just said. Is there still a funding vacuum for those smaller investments?

Philippe Valahu: There is. There are millions of project developers in sub-Saharan Africa, but do they have the pockets? No. They may own a piece of land, a piece of intellectual property. They may have some rights to develop but then they can't find the cash or the equity to develop that. One of the MDBs I have seen had a programme that tried to do that for some years, but there are very few players who are putting in money at that early stage. When we talk about the trillions—as unpopular as I sound when I make these pronouncements—that is an interesting concept but the trillions are not going to move unless you have pipelines



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of bankable transactions. You don't need trillions to develop those pipelines of bankable transactions. In particular in the energy sector, you need tens, hundreds of millions.

Q54 **Chair:** Was UK ODA in that space or has there always been a gap?

Philippe Valahu: Absolutely, as 65%, 70% funder of what we do, the funding that we get for our development in large measure comes from the UK. Yes, the UK is a very active player there.

Q55 **Chair:** Louise, you were frantically nodding then. That leads me to my next question. Have you seen cuts because of the ODA cuts?

Louise Walker: Yes, there have been reductions in spend because of ODA budgets. PIDG and FSDA get different types of the ODA budget and so we are able to protect the resource, the RDEL piece, which is the concessional piece that is so important for what Philippe is talking about and the fiscal CDEL. We are able to make sure that that finance is there alongside the investment finance. It is a package of funding that we are able to offer so that we unstick the project development work.

Q56 **Chair:** I am also making the link that the bigger projects are probably more financially attractive to the private sector, so it is the micro projects that are most dependent on development money and that is where the biggest demand seems to be, from what you are telling me.

Philippe Valahu: That is why one role we are trying to play there is aggregator. If you have a number of small players developing small mini-grid solutions, it is trying to get them together on a platform so that you are no longer talking about 2,000 people but potentially 50,000 or 100,000. Then all of a sudden you have a model that is more attractive and can attract capital.

Q57 **Chair:** This is our frustration across the board, in that the bigger projects have got the capacity to seek out the funding but also do all the administration. One of the things that we consistently argue for is the business links model that acts as a broker, corraling agent, and helps with that process. It sounds as though this sector needs that too, so let me say thank you for all the work that you are doing in that area.

Philippe Valahu: You need capacity on the ground and I think you probably agree, because we have talked about it, that you need to obsess about localising solutions. There are local developers who are very well positioned to do this. You don't need to attract it from other countries, so localising solutions is key.

Chair: It is always key. I can see the panel behind desperately trying to come in on your question, so I am going to end this session now. Thank you very much. We will pause the proceedings while we allow you to swap over. You have given us a lot to think about and thank you for all the work that your organisations are doing. It sounds absolutely fascinating.



While we swap panels, I will say to members that we have the potential for a vote imminently, between 3.30 and 4 pm. If there is any possibility that members could come back for the second session, I would be deeply grateful.

Examination of witnesses

Witnesses: Ian Mitchell, Romilly Greenhille and Evie Aspinall.

Q58 **Chair:** I will ask the second panel to quickly introduce yourselves because we are now pressed for time if there is this vote. Romilly, I will start with you by saying that you have been in front of this panel on many occasions but you have changed jobs since we have seen you, so congratulations. Tell us who you are and who your new organisation is, please.

Romilly Greenhille: Thank you, Sarah. I am the new CEO of Bond, which is the UK NGO network. We have 380 members working in the development space in the UK.

Chair: Evie, let me come to you. Tell us who you are and who you are representing.

Evie Aspinall: I am the Director of the British Foreign Policy Group. We are a not-for-profit, non-partisan think-tank focused on the intersection between domestic and foreign policy.

Chair: Ian is also a friend of this Committee. Introduce yourself and your organisation, please.

Ian Mitchell: Thanks, Chair. I am Co-Director of the Europe programme of the Centre for Global Development, which is a think-tank in London and Washington.

Q59 **Mr Sharma:** Evie, how has the way that the FCDO has delivered development aid transformed over recent years, particularly following the cuts to the ODA budget?

Evie Aspinall: I think the key distinction is between what the Foreign Office has said it will do and what has practically happened since the cuts. We have seen a number of key trends as a result of the cuts. One has been regional. Almost all countries have seen large reductions in aid from 2020 to 2022; however, Africa has particularly lost out, not least because of aid to Ukraine following Russia's invasion. We have seen a shift just by plans to move from bilateral aid towards multilateral aid. A key part of this has been a shift towards non-grant development finance, which we are here to discuss today. In part, that is driven by the economic situation, the aim being that non-grant development finance can allow us to unlock more money and do more with less. There is also a drive towards localisation and local project delivery, empowering local businesses and organisations by giving them the capital they need to get started.



This in turn has precipitated a number of other shifts. One is—and contrary to what our aims and objectives have been stated in the recent White Paper and the integrated review refresh—that we have shifted away from some of the lower-income countries towards more mature markets because there is less perceived risk in investments in those areas. Similarly, we have seen a move away from poverty alleviation as a priority, particularly when we are looking at non-grant development finance.

Q60 **Chair:** Does that move away from poverty surprise you?

Evie Aspinall: It does. Instead of our stated objectives, it does not align with what we have said our vision for the world should be and the role we want to play in it. It is not necessarily surprising, particularly on the non-grant development finance, because it is quite inherent in the model. It is easier to encourage private capital when there is less risk involved, so they will always go for the easier opportunities, which tend to be middle-income countries. One of the big things that we need to focus on is finding ways to implement guardrails that make sure that we still prioritise lower income countries.

Q61 **Nigel Mills:** Ian, I will start with you. I think you heard the previous session when we were talking about the finance gap and the need to find alternative forms of finance to bridge it. Is that a direction of travel that you agree with?

Ian Mitchell: When we have looked at this, we have seen that there is a lot of aspiration for private finance to fill the financing gap, but when you look at the actual record of the instruments that are used, the multiples are not very large. The billions to trillions mantra of a decade ago is shown to have failed. Most of the instruments we looked at were for every pound of public money, there was between 50p and £1.50 of private money being mobilised. There is some movement of private money but relatively incremental. I think the private mobilisation agenda is an important part of the development approach that we need. Lower-income countries need a financial sector that operates, but I think the conclusion that there is a huge financing gap, and therefore we need to mobilise private money with public money, will not lead us very far.

Q62 **Nigel Mills:** What is the reason for that? Is it that there are just no schemes out there that are attractive to investors so you cannot attract investment?

Ian Mitchell: Yes, I think that is a good question. In a sense, development is about capital moving into economies so that they can grow. When the institutions and the conditions are sound in a country, then the private market has a strong interest in moving in and investing. On the question of whether public money is best spent on strengthening the institutions and the public sector of that country or whether it is used to slightly increase the returns or decrease the risk, it is valuable to have a balance of both, but on the whole I think that it is the former that



matters more to private money moving into lower-income countries. A little bit of subsidy will not make a great difference if you are a private investor looking at one of those countries. It is not transformational, having a slightly lower risk because of some insurance from Government.

Q63 Nigel Mills: It sounds like we are in danger of billions to trillions becoming billions to millions, which is probably not quite what we are after, is it? We looked at BII and we took a long look at what additionality meant and how you can ensure you were being additional rather than just crowding out what private finance was there because it was a way of getting a return. Does this work? Do we have development institutions actually doing stuff that other people will not do, or are they just doing stuff that other people might have done because that is the easiest way of doing the work we are asking them to do?

Evie Aspinall: I think that it is honestly quite hard to assess because it is actually hard to pinpoint additionality and show it exactly. Whenever you talk to counterfactuals, it is hard to assess whether it would have been there in the first place. We have seen consistently that many of these instruments are investing in low-risk options because that is how you can mobilise appropriate capital. Because there are multiple levers trying to pull them in the same places at the same time, you find that they then invest in the low-risk options which is actually where private capital would invest in the first place. The challenge, therefore, is that we have to move to the higher risk options if we actually want to say that we are genuinely doing an additionality. Obviously, that is spending, it is money, it is investment, but to be seen to risk public money is a dangerous narrative to go down. They have a constant battle of wanting to keep their credit ratings, not wanting to take too much risk, but that is when you actually achieve additionality.

Q64 Nigel Mills: It is slightly perverse, because we are moving money that we could spend on good things to investing on what we hope will produce good things, and then we are worrying that we might lose the money that we would otherwise have just spent and not got back. It is not the most logical. In reality, we should not expect successful returns on every investment and we should not be too upset if a few of these go wrong, should we? Romilly, do you have any views on this topic?

Romilly Greenhill: I agree with everything that the colleagues have said. One of our concerns with BII is that it is not investing enough in least developed countries. Our analysis showed over the last five years only 21% by value was going into the least developed countries. I very much agree with what Evie said. If we are genuinely putting in public money into BII, we would want it to be in the riskier environments, the fragile states, the LDCs, and also in the more difficult sectors. One of our big concerns around BII is around climate. We are not seeing the levels of commitment around climate investments, renewable energy and so on that we want to see. We would like BII to do things that private sector money is not doing in riskier environments and in more inclusive, gender-sensitive, climate-smart sectors.



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Q65 Nigel Mills: We have struggled to get our own pension schemes to invest in our own infrastructure and high-risk businesses. Do you see much appetite for pension schemes investing in African infrastructure and high-risk investments?

Romilly Greenhill: No, and again to double tap on Ian's point, there is also a question of whether this is the best use of our ODA money, getting the regulatory environment right, getting the rule of law right and getting all of the fundamentals right in some of these countries. By the way, you can use a bit of ODA to do that and I think that is a sensible use of money.

This idea of small amounts of public money catalysing large amounts of private money, we have tried it now for more than a decade and I do not think the evidence base is there. Bond members are also concerned that there are trade-offs with the rest of the ODA budget. As we all know, the budget is being cut from 0.7 to 0.5 and there is the refugee spending, so in fact, the ODA budget is more like 0.3 at the moment, and a growing share of that is going into BII. We are therefore seeing cuts to girls' education, health, food security, and so on.

Q66 Chair: Romilly, this session is looking at alternative sources of financing, so with that pretty bleak picture you have painted, where are the alternatives? What ought to be happening? What do your members say? Why is the Government not doing this rather than—

Romilly Greenhill: I think that there is a lot that we can do on public sources of financing. The multilateral development banks getting bigger, better, more transparent, better governed, more equitable, greener is an important area. I think that the current Government are doing a fair amount on that, which is welcome. We have not seen enough progress on things such as global taxation. I think that is an important area. How can we tap down on illicit financial flows?

Q67 Mr Bacon: Could you say a bit more about what you mean by global taxation?

Romilly Greenhill: At the moment, it is things such as airline taxes—we do not properly tax aviation fuel and we should do that. That would also be good for the climate and it would generate new public resources that we could use for development. Helping countries to raise more of their own tax revenues by cracking down on things such as tax havens and so on is important, and that is public money that could be used to fight poverty and invest in infrastructure and so on.

Q68 Chris Law: Romilly, I just want to ask you: do you think there is sufficient—sorry, I have to go back to Evie. I am a question ahead of myself. Many of the FCDO's British Investment Partnerships are partnered with, or jointly funded by, other Governments and organisations. Can you tell me, does this limit the leverage that the FCDO has within these financial instruments?



Evie Aspinall: It is the classic problem of collaboration versus competition. There is a risk when you are all operating in the same markets that you end up competing with each other. I think that this is a particular challenge in lower-income countries where the opportunities to invest are smaller and fewer. We find that we are competing rather than supporting each other. There is also a risk of duplication, which, as we all know how tight budgets are, is one that we want to mitigate. I think that there are also opportunities to collaborate with partners, and that is an approach we are trying to do in general in our foreign policy and one we should encourage, not least because different investment organisations have different specialist expertise and skills and offer differing financing options. Collectively, we can work together to make a better package that can also help to mitigate some of the risks. That is certainly a positive. There are risks but there are opportunities as well.

Q69 **Chris Law:** Okay. Can you tell me how effective is the injection of new capital in instruments such as BII, PIDG and MOBILIST in achieving the FCDO's international development objectives, particularly given its increasingly limited ODA budget?

Evie Aspinall: How effective have they been in general? A mixed success, partly because, as we heard from the first panel, each is doing quite different things and working in different ways. They have been somewhat effective. I think that the biggest challenges, as I alluded to earlier, are that they are not always completely aligned with our development objectives, not least because a lot of the investments are legacy investments that are ongoing, so they are not based on our current objectives, which have also shifted and changed. As Romilly mentioned, we have not seen enough investment in things such as climate or lower-income countries. While our broad objectives are in line with the broader development sector, they are not intricately and, crucially, they are not being held particularly accountable. There is a big issue around transparency, as I am sure we will get into, which means that we cannot assess how well they are doing against a lot of these criteria.

Q70 **Chris Law:** It feels like a big tanker trying to turn at sea but with no rudder at the back. It is quite interesting.

Ian, can you tell me, are there risks involved with these financial instruments often operating in similar sectors and regions? It sounds like there clearly are.

Ian Mitchell: Yes. I think that they have slightly different areas of focus. Some of the instruments within British Investment Partnerships are focused in different areas. PIDG, for example, who you spoke to in the last session, is more focused in lower-income countries than some of the other instruments. I think that is worth keeping in mind. As Evie said at the start, the nature of these types of finance means that they are typically more towards middle-income countries than the FCDO budget is in general.



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We saw some other ways to mobilise finance in our work. Guarantees are a good example of that. Over the past few years, the Government have guaranteed parts of multilateral development banks' portfolios, allowing them to lend quite substantial sums quickly, including to Ukraine as well as for climate projects in India, Indonesia and South Africa. Those are quite promising. They are not likely to call on ODA. They are taking advantage of the fact that there are assets on multilateral development balance sheets that can be leveraged. They are almost proof of concept of the reforms being pursued. That has generated billions in lending to those countries at relatively low risk.

Q71 Chair: Can I come in here? It was those guarantees that actually started us down this inquiry. I cannot remember, but exponentially the amount that the Government have been guaranteeing is going up like a rocket, which is fine until, as is predicted, there are one or two big incidents around the world at the same time, which leaves us very overexposed. Do you share any of those concerns?

Ian Mitchell: I think that the Government could be a lot clearer on how they perceive those risks. As you say, if those guarantees are called, they become ODA and the Government are responsible for fulfilling the loan repayments to those different countries. For the loans to Ukraine, that is obviously a clear risk but I guess the alternative was to fund Ukraine directly. In this sense, it allowed the money to move out the door quickly.

I think that the other guarantees are much lower risk because they are through the multilateral banks, and the multilateral banks are not taking enough risk. I think that the chances of those going wrong are much smaller therefore they make good sense. It is hard to know.

The India green guarantee is a good example of the lack of transparency. It was announced in COP, Parliament was informed two months later, and we still have not really heard any detail about what that guarantee is funding. In the autumn there was a little bit more detail from the bank, but there must be an expected cost of that guarantee. We know the length of time. We should know the expected cost, but that information is not systematically made available. Sweden has an annual report—

Q72 Chris Law: Why is it not made available? It is leading to my next question: how do we get access to this information?

Ian Mitchell: There was more information in this year's FCDO annual report. There was an improvement. SIDA has a systematic reporting system where it says, "These are all of our contingent liabilities. This is what we expect them to cost based on the risks that we are taking, and this is the objective of the guarantee". I think that we need that because it is around \$5 billion that has been guaranteed in the past two years.

Chair: I am told from 2022-23 that the size of the guarantees has gone up by 411%.

Q73 Chris Law: Which concerns a lot of us. Romilly, do you think that there



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is sufficient information available to let ourselves—politicians and civil society—scrutinise these institutions effectively, and how could this information be improved to enhance future scrutiny?

Romilly Greenhill: The simple answer to the first part of your question is no. I think that Ian has provided an example. Also, Publish What You Fund, which assesses a lot of different agencies based on transparency, gave BII a score of 26.5 out of 100, which is not very good, and put it in the bottom half of all of the DFIs. I am sure that we can send you this. They ranked all of the different DFIs and that was the score given to BII.

Q74 Chris Law: Would you recommend that there should be a member of the Government on the board? This has come up repeatedly in our Committee. When we had Andrew Mitchell here most recently, he was absolutely adamant that that should not be the case. What are your own thoughts on that?

Romilly Greenhill: No, I think that you need to have much stronger Government control over BII. To pick up on Evie's point, the Government have a set of commitments on climate. They are committed to the SDGs—gender, leave no one behind, and all these agendas—but because BII is at arm's length, they have limited control over how much BII is doing to implement those commitments. Transparency is incredibly important. I personally would like to see an overall strategy for the UK across all of the British Investment Partnerships. What are they trying to achieve? How does it align with the SDGs? Transparency about how much is being spent, to your point on guarantees. That would enable you, us, and people in low-income countries to scrutinise and check progress. That is just not there at the moment.

Q75 Chris Law: And a member of Government on the boards?

Romilly Greenhill: Yes, and Government on the board, exactly.

Q76 Mr Bacon: Mr Mitchell, earlier when we were discussing the billions to trillions point not having really come to fruition, you said that the evidence that some extra insurance promoted a big flow of extra private capital is unconvincing—I cannot remember the exact words you used but I am not misrepresenting what you said. Are not guarantees, which you said were quite promising, essentially a form of insurance? Is that not what they are?

Ian Mitchell: Yes, they are. That is right.

Q77 Mr Bacon: Or were you referring to something different?

Ian Mitchell: No, I was referring to guarantees. My broader comment, as you said, was related to whether a small amount of public finance would cause private finance to flow. You are right. Guarantees are an example of that. I think that the way the Government have used them has been to guarantee loans from multilateral development banks, and for that particular reason, they have been able to move a lot of money, either because the multilateral development bank could reach its country



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limit, as was the case with India, or because it enables the African Development Bank, for example, to have a portfolio of lending that it would not otherwise be able to have. Essentially, because the multilateral development banks have such strong balance sheets and those guarantees are unlocking them, it is that particular feature that means that they work well.

Q78 Mr Bacon: As the Chair said, there has been a huge increase in the amount of guaranteeing going on. There are obviously some benefits to it but also some risk. How would you characterise the risks of doing far more guaranteeing in the way we are now doing compared to the benefits?

Ian Mitchell: The way that the Government account for these guarantees is that there is an expected cost that goes into the FCDO's resource budget. That is a real economic cost that is recognised as spending.

Q79 Mr Bacon: When you say recognised cost, do you mean the fair value they put?

Ian Mitchell: That is right, exactly.

Q80 Mr Bacon: That is not necessarily an actual cost of cash out the door, is it? It is just an accountant's assessment of the risk, which may or may not come to fruition, if fruition is the right word for risk crystallising.

Ian Mitchell: No, exactly.

Q81 Mr Bacon: In the Foreign Office resource accounts, there are quite widely varying risks. For the African Development Bank you mentioned, we guaranteed 1.3 billion, and the fair value that is £98 million, or 7.5%, but in Jordan, we guaranteed £252 million at a fair value cost in the accounts of £15 million, or 5.9%. In Iraq, it is 11.7%, £45 million fair value out of £382 million. You used to work at the Institute for Fiscal Studies. You are used to crunching numbers in the spreadsheet until you get the number you want—sorry, until you get a reasonable number that could withstand scrutiny. How are these numbers calculated?

Ian Mitchell: I do not think we know the answer to that. That is exactly the question we should be asking. There is a new report by the Government that sets out contingent liabilities, but it does not cover these loans because it is not up to date enough. On the ones that it does cost, it talks about the credit worthiness of those partner countries and the likelihood of them being unable to repay their loans. I think that for the guarantees we have seen that are development-related, we have not seen that breakdown of the probability of not repaying and how it takes the different factors into account.

Q82 Mr Bacon: Those numbers must be behind it in order to come up with this.



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Ian Mitchell: Exactly. Someone in the Treasury is calculating those numbers but the calculations are not publicly available.

Q83 **Mr Bacon:** Do you know what is wrong with Gibraltar—25%, £108 million fair value for £425 million of loan. Is there something that we are not being told?

Ian Mitchell: I do not know about the Gibraltar case. I think that is probably not a multilateral development bank guarantee like the others, so it probably reflects the direct credit risk of that country.

Q84 **Mr Bacon:** On the subject of multilateral development bank guarantees, you are saying most of these guarantees are in the form of guarantees to multilateral development banks in order to unlock the left in their balance sheet. Is it not also true—did not we learn this in the financial crisis— that just by accumulating lots of risks into one big risk that is so big that nothing cannot possibly go wrong is potentially a gargantuan error? That is exactly what we saw in the financial crash, wasn't it?

Ian Mitchell: Yes, certainly in the private sector we saw that. I think that the multilateral development banks are in a different situation where they are overly cautious. They have extremely strong credit ratings. Different think-tanks. My colleagues have said that those balance sheets can be leveraged more—they can issue bonds and borrow in private markets to a greater extent without putting their credit rating at threat.

Q85 **Mr Bacon:** Is that because they are quasi-sovereigns?

Ian Mitchell: Exactly, because their repayments are prioritised above private lenders to countries. I think that the World Bank has just agreed to publish its detailed information on repayment rates for its loans that will help the private sector to make better judgments on that. It is exactly that reason. If the reform went as far and as fast as some people argue it could, the opportunity for those guarantees would not exist anymore because the banks would be taking those risks themselves.

Q86 **Mr Bacon:** Do you mean the multilateral development banks would take those risks?

Ian Mitchell: Exactly.

Q87 **Mr Bacon:** Are there any other big international aid actors who are using these guarantees at the scale that FCDO is using them?

Ian Mitchell: Yes, but perhaps not at the scale of FCDO. I think SIDA in Sweden was probably the first and most active in the use of guarantees. One or two other countries have used them as well. As I said earlier, I think that this is proof of concept from the UK that there is room on the balance sheets to lend more, so it is in the vanguard on these issues.

It reminds me a bit of the climate-related debt clauses, where the UK was one of the first to come out and say that countries need relief when there is a climate disaster. Even though we do not lend ourselves beyond the



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export credits, it was more of a stance of principle, and now the World Bank has followed that lead. I see this as a similar situation.

Q88 Mr Bacon: One more question for you. Going back to what I asked you about at the beginning, that the greater degree of insurance we are seeing will not have the transformational effect that people would hope to see. That is what you said earlier. What would have a transformational effect?

Ian Mitchell: If we look at concessional finance globally, the amount that the G7 and the countries contribute, there are probably two main ways to materially change the amount of finance going into development. One is to encourage new countries to contribute, and the climate finance discussions at COP this year will bring that into sharp focus. We are seeing some of the Middle Eastern countries contribute more and that could open the door to a conversation about that. The other is going back to the reform of the multilateral development banks, where potentially there is more than \$100 billion that could be unlocked with successful reform—

Q89 Mr Bacon: \$800 billion?

Ian Mitchell: No, probably between \$100 billion and \$500 billion additional, on top of \$200 billion in aid globally. That needs the support of the shareholders at the banks and a willingness to take more risk. That is an important agenda. Beyond countries stepping up together and providing more ODA, I think that those are the only two ways to get significant additional finance into the system.

Q90 Mr Bacon: Do we not also need greater reassurance? I think that Romilly Greenhill mentioned the governance question. There are many jurisdictions where people are reluctant to invest because they think there is going to be a coup d'état and they will lose it. To take a slightly different example, this Committee was in northern Sinai recently. We met some Gazan businessmen who are now taking refuge in Cairo. They are looking for lots of investment. Nobody will invest in Gaza on the scale required unless there is a political settlement that assures investors that it is not all going to be destroyed by bombs again in five, 10 or 15 years' time. The same is true of much of Africa and Asia, is it not?

Ian Mitchell: There are clearly countries that are either in debt distress or are very fragile and will not attract private investment. The medium-term story for development is much stronger than that. If you look at lower-income countries over a 20 to 30-year period, they have grown quickly and are starting to present good opportunities for investors.

Going back to the beginning of this, is it right that the UK Government are supporting financial development in lower-income countries? I think that it makes sense to a degree. If you think about the UK's comparative advantage, we have a strong financial sector. Our regulation matters globally, so it is legitimate that the UK should think about policies in that area.



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The longer-term story of investing in lower-income countries is a good one, notwithstanding the fact that there are risks with conflict or other challenges for countries. It is enabling our pension assets and other private investors to access those good returns as they take off.

Q91 Chair: Could I direct the same question to both Romilly and Evie, please? What are alternatives? Evie, in your introduction, you very nicely said that the investment in poverty is dropping dramatically. We are seeing more and more crises around the world, so the problem is only ever going to get bigger. What are the alternatives to this?

Romilly Greenhill: You need to think about domestic public/private and international public/private. On the private sector side, there is a lot of focus about international private finance, FDI and so on. Doing much more to support local private sector in countries in low and middle-income countries is important. If you think about the SMEs and MSMEs, that is where you get bigger impacts on gender equality and property reduction, so encouraging those local markets is important.

On the international public side, Ian has talked a lot about MDBs, and I agree with everything you have said there. If we are to get the MDBs fit for purpose, we need to think about how they are governed, who makes the decisions, and the voice of which countries. All those sorts of issues are incredibly important. We need bigger and better banks. On the international side, I talked before about international taxation and things such as tackling illicit finance is important. We need to get to this portfolio approach.

The other important thing, when thinking about financing development, is that public and private money do different things. They have different objectives. If I have a supermarket on one side of my street and a primary school on the other, you do not really want the public sector running the supermarket and you do not really want the private sector running universal primary education. Sometimes there is this tendency to mush all the money together and say that we do not have enough public money, therefore we need to bring in the private sector. We need to be clear about what kinds of money can meet which objectives. That is the other thing that we need to think about.

On the international financial side, yes, there are opportunities, but as we said at the beginning, we need to do more to create the right regulatory environment to make sure that international private money is also meeting standards on climate, environment, governance and social indicators. That is an important thing we can do, setting those standards—labour standards, human rights standards, all of those sorts of things—rather than just trying to get more money in willy-nilly. It has to be the right kind of money for the right purposes and the right contexts.

Evie Aspinall: The colleagues have spoken to much of the key ones. The MDB point I think is particularly important—reform of MDBs and



mobilising a lot of that capital. Another thing we could add is plugging information gaps. One of the biggest challenges for investors is not knowing what is going on in this climate, so we can support that more. Similarly, investing in local infrastructure for finance, such as central banks and so on, providing support for them, as touched on earlier, is a key part of what the UK can offer.

In some ways, perhaps we become a bit pessimistic in these things. I think that there are positives about non-grant development finance and opportunities, not least if we think about transitioning the types of finance we offer. As countries transition between different stages of development, if we mix the financing we offer, this should evolve to reflect the shifting risk configurations. While we might finance in one way in the earlier stages, using ODA in low-income countries, we can then improve the investment climate for private capital to invest as they grow further along. It is not that this is completely irrelevant and not important, and given the size of the financing gap, it does have a role to play. We just need to think strategically to make sure we are using it in the best ways possible.

Q92 **Chair:** Do you see other countries doing it better? Are there examples where you think, "Wow, that is really good and we should replicate it?"

Evie Aspinall: I cannot think of any immediately. I do not know if colleagues have one where they think, "They are brilliant". The main thing is where nations have thought strategically about their use from the start and think about how they align most effectively with their overall development priorities and have the right level of oversight and transparency. Other nations have moved more quickly on the question of transparency, hence why BII is so low.

Q93 **Chair:** You do not see that clarity in the White Paper?

Evie Aspinall: I do not think so yet. I think that there is still more to be done.

Ian Mitchell: Just briefly on that question, Chair, I think that it is hard to know how much the Government absolutely want to be doing this for development reasons and how much is because they have a financial transactions target from the Treasury. In the spending review, FCDO was given a target for a proportion of its ODA to be used in financial transactions. They can only be used at BII, IFC and PIDG. We do not know where that target is now. We do not know what the plans for spending next year are. The latest public information would suggest that it needs to very substantially increase that spending in the coming financial year, 2024-25. The figures are an expected spend of £1.2 billion, which is double what has been spent this year on financial transactions.

Q94 **Mr Bacon:** What could possibly go wrong?



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Ian Mitchell: Indeed. I would expect that those negotiations between FCDO and the Treasury are ongoing, but we are two weeks short of the new financial year and there is certainly no public information that suggests that £1.2 billion will not have to be spent. FCDO's budget is increasing in 2024-25, but only by an amount that means that two-thirds of the increase will need to be in financial transactions as things stand.

Q95 **Mr Bacon:** Of the type that we were looking at earlier, funding securitisation and so on?

Ian Mitchell: According to the latest public information on it.

Q96 **Mr Bacon:** Have any of you done any assessment on fees? My nostrils always start flaring when I see public money going off on schemes that involve—I am a recovering banker myself, so I am not saying anything against them, but I always think, "Who is slightly ahead of everyone else? Who has an edge on this? Who is making a fee and how big is it?" You do not get big transactions without fees. Quite often, you do not get big transactions without big fees. If there is an increase in the total of ODA spend going into financial transactions, my first thought is, "How much are the fees going up and for whom?" Is this an area you have looked at?

Romilly Greenhill: A lot of that will be going into things such as BII, PIDG, and so on, so your earlier questions about financial intermediaries would apply. The first recipient of that would be BII, PIDG, and so on.

To pick up on Ian's point, I think that there is a tail wagging dog here on financial transactions. It sometimes feels like allocations are being made based on needing to meet those arbitrary targets, rather than what is the best thing the UK can do to support the SDGs.

To go back to fees, we have not looked at that. I do not know if colleagues have, but it is an interesting question that could be explored.

Mr Bacon: I remember that it was the Cabinet Office in the UK—the Office of the Third Sector was being hosed money about 15 to 20 years ago, and pleading, "Do not give us so much, we cannot get rid of it quickly enough". It was told, "No, here it is, you have to have it". Of course, there were the predictable disasters that followed. Very interesting. Thank you.

Q97 **Nigel Mills:** Can I check my understanding? Maybe these things are not mutually exclusive, but at one level, we have a model of trying to securitise and put some capital in up front, then get it back out and roll it around, and at the other end, one of the outputs of COP28 was the need for concessional finance and how we effectively bridge a gap where we need 80 million to do something, but there is only 60 million that is really viable so we have to go and fund the 20 million, and either we have to let the country off existing debt it has to create the fiscal room, or we have to redirect money, or we have to help them get tax, or we have to subsidise that to make it happen. Those are fundamentally different



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models, aren't they? One thinks that you can make it viable, the other says we just need to do it and it will not be viable. Where are we on those two? Do they exist at the same time in different places, or do we need to look more at the concessional route than the first one?

Romilly Greenhill: From our perspective as Bond and our members, we need an awful lot more concessional financing if we are to meet the SDGs. There is a wide body of evidence that suggests that, on the leave no one behind poverty reduction agenda, on the climate agenda, and many of our members from a justice perspective are talking about concessional financing for climate, given that lower-income countries did not cause a lot of the problems and are having to make the investments and deal with the impact. Our perspective is that we need significantly more concessional finance. We are calling for a return to 0.7 immediately and options to explore other sources of concessional financing for countries.

My view is that sometimes we have these ideal conversations on what the evidence tells us is needed and then you have the reality of how much money is actually available. I think that is sometimes where we get tied up in knots. From a needs perspective, we need to massively scale up concessional grant financing for poverty reduction and climate purposes. I do not know if others want to add on that.

Ian Mitchell: Just briefly, climate finance is going through a similar debate journey that development finance has been through to some extent—"We need a lot of money; we need to mobilise it". It is a bit different in that a lot of that money needs to go to middle-income countries to help with the low carbon transition; where capital markets are more developed, there are greater resources and private investment. There is an argument being made that some concessional lending there could be important in unlocking renewables. That is a distinction, I think, from the SDGs and ODA, which is much more about the low-income countries where energy footprints are not very large at all.

Chair: I really appreciate this and really appreciate the first panel as well. You have given us a lot to think about and, more importantly, a lot to get the Minister to think about. Thank you for sharing.