Foreign, Commonwealth & Development Office

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Rt Hon Andrew Mitchell MP
Minister for Development and Africa

King Charles Street
London
SW1A 2AH

Tel: 0207 008 5000

Email:
fcdo.correspondence@fcdo.gov.uk

www.gov.uk/fcdo

Sarah Champion MP
House of Commons
London
SW1A 0AA

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Dear Sarah,

British International Investment (BII) Statutory Instrument

Thank you for the opportunity to provide evidence to the IDC Select Committee on BII and the UK's approach to development finance on 6 June. I look forward to receiving the Committee's recommendations and giving them close attention. I am writing to let you know about the BII Statutory Instrument that was laid on the same date and to offer a meeting with the Committee, myself and BII's Chief Executive Officer, Nick O'Donohoe, to discuss this set of Regulations.

No country can defeat poverty without sustained economic growth, creating jobs and raising taxes for public services. Developing countries have a chronic lack of investment; have small productive formal sectors; large unproductive informal sectors; and are most at risk to the impacts of climate change. As a result, young people in Africa are no more likely to be in waged employment than their parents. We are determined to change this and help create the right conditions for jobs and enterprise to thrive. The private sector is vital to achieving this goal, but in many countries there is a long way to go to create the right conditions and assurance for investment. This is where I believe BII is pivotal.

The UK has been a leader in development finance for 75 years – starting with the establishment of BII as the first fully fledged development finance institution in 1948. BII is an organisation with a rich history and long commitment to supporting development around the world, none of which would be possible without the commitment of its employees who come to work every day striving to make a difference. Over the last five-year strategy (2017-21), BII made £7 billion of commitments into over 600 impact-led investments - mobilising approximately £2.5 billion of additional capital from private sector investors alongside. From 2017-2021, BII supported businesses that employed almost 1 million workers, generated 277,000 GWh of electricity, and paid more than £10 billion in taxes locally. Supporting businesses to a point of success means that impact is sustained and the capital is returned back to the UK tax-payer, to have further impact in new projects.

Over the long-term, BII's business model is self-sustaining. However, increases in support by the Government enable it to increase the scale of its investing, which is required to meet the financing needs of the UN Sustainable Development Goals (SDGs). That is why a capital increase to BII was agreed by the Government in November 2022 to enable BII to deliver its new five-year strategy. With this capital increase, BII will reach the cumulative capital limit set 6 years ago when the limit was last raised under the CDC Act 2017.

This short set of Regulations are a necessary step to ensure that BII, as the UK's Development Finance Institution can continue to scale up its important work supporting countries to lift themselves out of poverty by creating jobs, supporting businesses, and stimulating inclusive, sustainable, economic growth. This will enable full delivery of BII's current five-year strategy running from 2022-26, under which BII has agreed with the Government to commit to greater ambition on geographic spread, climate and gender impact. This will also enable BII to continue delivering on wider publicly announced ambitions under British Investment Partnerships - as set out in the International Development Strategy 2022 - and the UK's commitment to provide at least £11.6 billion of International Climate Finance between 2021 and 2026.

My priority is to ensure that UK aid is used effectively in helping achieve the SDGs; achieving value for money for UK taxpayers; and delivering in our national interests. The Regulations will enable us to deliver on BII's full potential over this SR in continuing to promote sustainable inclusive development. Further detail is contained at Annex A.

I very much hope that you will be supportive of this Statutory Instrument, which will allow us to carry on creating opportunities around the world and, in turn, to contribute towards eradicating poverty.

If you have any questions about this legislation, please do not hesitate to get in contact with me.

With every good wish,

Yours ever,

Andrew

Rt Hon Andrew Mitchell MP
Minister for Development and Africa

Annex – Q&A

What amendment to the CDC Act 2017 are we seeking to make?

The CDC Act 2017 set a £12 billion cumulative limit on the amount of capital that the Government can provide to BI. The Act has a requirement to seek Parliamentary approval through Secondary Legislation when the cumulative amount of capital provided to BII reached £6 billion. This £6 billion cumulative amount will be reached by June 2024. Accordingly, this legislation utilises the delegated powers set out in the same Act to raise the limit from £6 billion to £9.5 billion.

My priority is to ensure that UK aid is used effectively: achieving value for money for UK taxpayers. No new capital to BII will be released without a business case subject to full Ministerial scrutiny and approval and the agreement of BII's Board. Furthermore, after approval, BII will only be able to draw down the capital when needed in response to market demand.

Why are we proposing to raise the limit of our investment in BII?

FCDO have agreed a five-year programme of investment. To meet this requires combination of recycling processed from existing investments and new capital from the Department. It reflects that over the past BII has been approximately 4 per cent of the ODA budget. with the ambition High rates of investment are needed to deliver strong and continuous growth, create jobs and reduce poverty. However, there is massive unmet demand for capital in developing countries.

There is an urgent need for the public sector to operate in a way that leads the way and catalyses private sector investment in developing economies. This is a truly valuable role for FCDO and BII to play. Frequently private investors won't invest in businesses in BII markets because they perceive it to be too risky. We know that when development finance institutions invest, they can pioneer new sectors and over the long-term bring confidence to private sector investors, and we have seen some remarkable joint ventures having a truly transformative effect.

Examples of BII investments over recent years:

- **Ensuring 7.5 million children get vaccinated against Malaria.** BII set up MedAccess, a social-finance company, in 2017 to improve access to life-changing medical supplies at an affordable price. Over the last five years, over 375 million people in more than 90 countries have benefitted from MedAccess' agreements, and these agreements have also unlocked more than $450 million in product sales. MedAccess has been crucial in supporting the continued production of the malaria vaccine antigen. By guaranteeing manufacturing lines continued rolling while key decisions were being made, MedAccess has helped ensure millions more children will be vaccinated against malaria. MedAccess helped ensure 7.5 million more children will be vaccinated against malaria, averting 8.7 million cases of malaria.

- **Pioneering renewable battery storage in Africa.** Working alongside the UK-supported Private Infrastructure Development Group (PIDG), Globeleq – a BII backed project developer – broke ground on a pioneering 19MWp solar-generation and 7MWh battery-storage project at Cuamba in northern Mozambique, which will provide clean energy to 18,000 households and support job creation in Niassa, one of the country's poorest provinces with an electrification rate of just over 20%. This grid-scale battery storage project is one of the first of its kind on the African continent.

- **Helping SMEs address climate change impacts in Zambia.** In 2022, BII partnered with a local Zambian local bank to boost climate finance and entrepreneurship. The investment demonstrates BII's new approach to working with financial intermediaries which ringfences BII's money so it will finance for micro-SMEs and climate-related projects. BII's funding will play a key role in delivering on the UK's Green Growth Compact partnership with Zambia by helping boost SME growth and drive sustainable green transformation for the Zambian economy.