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Sarah Champion MP
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Dear Sarah

I am writing in response to your letter of 22nd June 2023 on additional British International Investment funding in support of Ukraine's recovery. This support will see a commitment of up to £250 million of funding to BII in annual phased tranches over a number of years, with the first tranche at the earliest in 2024/25. Funding will be provided once there are stable investment conditions in the country. No funding is being provided by FCDO to BII for Ukraine in 2023/24. Any BII investment activity is proportionate to the challenges we face in meeting the needs of the Ukrainian people.

We are working in lock-step with other European counterparts and DFIs to deliver. The nature of cooperation means that different agencies can bring their unique strengths to the table. BII will complement this extensive operation through the experience and expertise it has honed over numerous decades – albeit in contexts which differ from the combination of circumstances affecting Ukraine today.

I want to make clear that I expect to see projects focusing on those sectors that will promote Ukraine's sustainable development, by investing in green and resilient infrastructure, opening up financial lending to internally displaced persons, and vitally, supporting local agricultural solutions to fix what is a major source of global food insecurity. Above all, I expect to see projects benefitting those most affected by the conflict.

We know that what happens in Ukraine is not contained there. Similarly, the solutions we deliver in the country will have repercussions far beyond its borders. Helping Ukraine will, ultimately, help the world's most vulnerable people.

1. What was the rationale for the Prime Minister and the FCDO to allocate these funds for reconstructing Ukraine to BII? How was that permissible under the current arrangement that BII should operate at arm's length from the FCDO?

The Rapid damage and Needs Assessment 2 (RDNA2) carried out by the World Bank in coordination with the EU and Ukrainian Government shows that Russia's unprovoked invasion of Ukraine has led to an estimated collapse in GDP of 30 percent in 2022, with an over fourfold increase in poverty. As of February 2023, the estimated cost of reconstruction and recovery exceeded US\$411 billion, with the invasion destroying critical infrastructure and causing disruption in cross-border trade needed for inputs to businesses and essential goods for the population. The public sector alone cannot fill this financing gap, even with significant pledges from donors. The private sector and private investment will be an integral part of this reconstruction over coming years. However, depending on the terms of future peace in Ukraine, many investors are likely to remain risk adverse.

The Prime Minister has made it clear that the UK will stand with Ukraine for as long as it takes to win this war, and that we'll stand with them to build the future that they deserve. Under these exceptional circumstances, British International Investment's (BII) involvement will help to de-risk projects and mobilise private finance, particularly once the situation stabilises during the early recovery and early reconstruction phase over the next 5 years. As the UK's development finance institution (DFI) and the principal tool for investing in the private sector businesses overseas, BII has relevant capabilities.

This approach does not contravene our governance arrangements; rather, it highlights the collaborative nature of the relationship between FCDO and BII. Decisions around strategic priorities are set by FCDO as the Shareholder. BII's Board was consulted on this in-strategy cycle change and recognised the strategic case for expansion into Ukraine on an exceptional basis. The BII Board with the FCDO agreed that additional funding for the expansion would ensure BII can continue to deliver on its strategy in its existing markets. This approach is fully aligned with the arm's length relationship and BII will have full responsibility for selecting and approving investments.

2. What assessment has been undertaken of allocating these funds to other organisations, such as DFIs or NGOs, that are currently operating in Ukraine?

At the Ukraine Recovery Conference last week, the UK set out a major package of financial support for Ukraine, including \$3 billion of World Bank loan guarantees to bolster Ukraine's economic stability as it continues to push back Russian forces. This funding will support vital public services, including the cost of running schools and hospitals.

The UK is also providing a £240 million boost in UK aid for Ukraine this year, which will fund life-saving projects, including mine-clearance and disaster relief kits, as well as reform programmes and energy projects. More than half of the funding, £127 million, will be directed to life-saving humanitarian support, including for those living around the front line of Russia's barbaric invasion, through partners such as the UN and Red Cross.

The funding for BII is specifically targeted at supporting the Ukrainian private sector and signals the UK's long-term confidence and backing for the country.

Making investments of this kind in the private sector is the role of a DFI and is consistent with the activities carried out by the DFIs of our European and American partners. BII has strong relationships with these institutions and has played a key role in the signing of a Memorandum of Understanding with EBRD, G7 DFIs and EDFI DFIs to strengthen collaboration and identify co-investment opportunities in the country. The needs in Ukraine are far and beyond what any single institution can shoulder, and BII are the right organisation for the UK to ask to work with partners with specific expertise of investing in Ukraine to identify the most effective way to deploy the funds.

3. What are the guidelines and restrictions to the investment type or sectors that BII is permitted to invest in in Ukraine? How will that be monitored?

The availability of investment funds is an essential underpinning to a strong and independent private sector which is an important component in building resilient, modern and sustainable economies. Accordingly, BII investment in Ukraine will contribute to recovery and reconstruction to support a more secure, stable and prosperous region. BII will support this through co-investing with experienced partners in Ukraine focusing on key sectors including:

- green and resilient infrastructure, including digital infrastructure - key to supporting Ukraine build back better;
- energy markets, key to reducing reliance on Russia and supporting sustainable growth
- financial services, helping to improve lending conditions and enabling access to financial services for internally displaced people
- agriculture, supporting global food security and reducing immediate needs.

A Business Case has been approved by FCDO and HMT Ministers which sets out the parameters for the BII investment in the region. BII's investments in Ukraine will need to adhere to its Policy on Responsible Investing and be driven by its Impact Framework, with each potential investment being attributed an Impact Score. The Impact Score helps BII to identify which investments are likely to contribute most to BII's three strategic impact objectives – to make investments that are productive, sustainable, and inclusive. Capital will only be invested once conditions in Ukraine allow and ODA will not be provided to BII in advance of need.

4. Over what timeframe will BII: (a) seek out investment opportunities within Ukraine, (b) carry out due diligence regarding those businesses/intermediaries, and then (c) place the final investment?

This year will see BII make its first modest investment in Ukraine in partnership with IFC through the Global Trade Finance Program to unlock the vital flow of import and export goods, which is critical to sustain the livelihood of Ukrainians during the war and beyond. This investment is an unfunded trade guarantee made off BII's balance sheet and, as such, does not create an opportunity cost for investments elsewhere.

BII will begin a wider programme of investments once there are stable conditions in the country to allow it. Accordingly, additional capital will be made available for BII once a pipeline of investments is possible from 2024, on a phased basis. Up to £250 million of capital in total will be provided in phased amounts as investment opportunities emerge and ODA budgets allow. The goal is for BII to play a part in helping to meet the need for private finance to support longer-term reconstruction plans in Ukraine.

BII's investments will be made in partnership with others in the region, as part of an iterative approach linked to the EBRD-G7 DFI-EDFI Ukraine Investment Platform. The platform is led by the EBRD, with DFIs from 18 countries (including all G7 members) all signing an MOU which provides a framework for collaboration. The co-investment platform will enable BII (and other DFIs) to increase investment capacity by building on EBRD's experience, skills and relationships within Ukraine, they will remain as the lead manager of the co-investment, structuring and coordinating all due diligence. Any new investments – including the approach taken to identification and due diligence - will be made in line with BII's existing Policy on Responsible Investing.

5. What assessment has the FCDO made on the knowledge, skills and competencies that BII possessed for investing in (a) Ukraine and (b) reconstruction activities?

As the UK's DFI, BII has been making investments into private sector businesses since 1948. It has experience of investing in countries experiencing conflict and fragility. It also has experience of investing in a range of sectors that are applicable to reconstruction in Ukraine including green and resilient infrastructure, energy markets and agriculture. BII is well practiced at acting counter-cyclically, for example delivering an emergency trade-finance support in Africa during COVID to keep goods flowing and collaborating across the DFI community – such as leading on the development of the Africa Resilience Investment Accelerator.

The geographic region is new to BII. Therefore, BII will work alongside partners who have deeper country specific knowledge. We recognise the need to enter this market responsibly and carefully and BII will only invest alongside partners that have long-standing and strong experience of investing in Ukraine. The EBRD are a key partner, who in the years leading up to the war on Ukraine, invested on average €1 billion pa across all sectors (representing just under 3% of Ukrainian GDP in 2020).

6. How is the FCDO planning to ensure BII has the knowledge, skills and competencies to invest in (a) Ukraine and (b) reconstruction activities?

In addition to the points set out in question 5, FCDO colleagues with a deep understanding of Ukraine will continue to work closely with BII (in accordance with the arm's length relationship on investment decisions). A senior BII staff member has been working with the FCDO team responsible for the coordination private sector response in Ukraine over the past six months. As noted in question 3, BII will also be working with other Development Finance Institutions to build expertise.

7. How is the FCDO going to guide BII in reconstructing Ukraine?

FCDO, HMG and global partners will be working in unison in supporting reconstruction in Ukraine. Priorities for reconstruction will be guided through the Multi Donor Working Group on Ukraine's Reconstruction, of which FCDO is a member. As outlined above,

parameters for investing for BII are clearly articulated. We will work closely with all partners to ensure join up across activities in the region in areas such as assessing reconstruction priorities, understanding and feeding into BII the political and economic context relevant for its investment decisions, and supporting BII's partnership approach. Decisions on individual investments will remain the responsibility of BII, in accordance with good governance practices for a public finance corporation.

8. Will there be any additional cost to the taxpayer for equipping BII with the skills and competencies for investing in Ukraine?

There is no additional cost to the taxpayer. Operating costs for BII's investments in Ukraine will ultimately be covered by returns realised on their investments, as is the case with the rest of the portfolio.

9. How will the FCDO and embassy staff work with BII to (a) identify investment opportunities with credible development impact and (b) ensure there is a transfer of its institutional knowledge to BII?

The FCDO and BII have a shared purpose in fostering economic partnerships that accelerate productive, sustainable, and inclusive economic development. To maximise the impact of the UK's collective effort overseas, HMG and BII recognise the role of effective collaboration which corresponds to each organisation's mandate, strengths, and processes.

Standardised guidance for BII and FCDO in-country collaboration was developed in 2018 and a revised version for the 2022-26 strategy period was recently rolled out across the HMG network to strengthen the way strategic collaboration happens and to align FCDO and BII strategic and investment priorities.

Specifically on Ukraine, over the past 6 months a senior member of BII's team has been seconded into the FCDO's Ukraine Early Recovery and Reconstruction Department. The secondment was to provide advice but also to learn FCDO's approach to reconstruction and a transfer of FCDO country context knowledge.

10. How will the FCDO and embassy staff ensure its programme activity complements BII's investment activity?

FCDO and BII have a track record of working collaboratively across BII's existing markets, with policies and structures in place to facilitate complementarity of support. This approach will continue to be taken with BII's expansion into Ukraine.

*I do hope the above is helpful.
With warm regards,
Yours ever,
Andrew*

**Rt Hon Andrew Mitchell MP
Minister for Development and Africa**