

IDC's Investment for Development Inquiry - Submission by BII, the UK's Development Finance Institution

British International Investment (BII) [gave evidence](#) at the International Development Committee (IDC) on 25 April 2023. This piece of written evidence responds to requests for further information from the Committee at the oral evidence session and areas where we feel it is useful to provide further clarity. It is complementary and should be read alongside our main written submission available [here](#) which explains in detail the role of development finance and how BII selects, targets and evaluates its investments.

Q. Please can you provide detail on the Nu Cosmetic Clinic investment [Q204].

1. In 2008, BII (then CDC) invested in a cross-sector, small and medium-sized enterprises (SME) fund, APF-I, managed by Ambit Pragma, an Indian investment manager. At the time, BII's mandate was to invest in emerging market funds only, with a focus on economic growth, third-party capital mobilisation and first-time fund manager support. The investment in APF-I pre-dates BII's 2012, 2017 and current (2021) investment strategies.
2. In February 2010, the fund invested in Beams Hospitals Pvt Ltd, an ambulatory surgery (a walk-in day care surgery) company (Beams). The company used this capital to expand and enhance its services. An entry was recorded on BII's investment database. In March 2013, as part of the fund manager's plan to exit its investment in the company, a new CEO was brought in to turnaround Beams, bringing with him his existing business (Nu Cosmetics). The turnaround of Beams was not successful, with the Nu Cosmetics division of the business performing much more strongly. Subsequently, in October 2015, Beams underwent a restructuring which ultimately led to a transfer of the fund's interest in Beams to a newly formed company holding Nu Cosmetics, with a debt instrument to provide a fixed return exit to the fund. A new entry was recorded in the BII investment database in 2016 to reflect the change in structure. The purpose of this arrangement was to initiate a path to exit for APF-I (the fund manager). This was not successful, and the company stopped operating. BII removed the entry on its website in 2023 when BII received final written confirmation from the fund that it had formerly written off the investment in its accounts. The impact and financial objectives for this investment and the wider fund were not achieved but the learnings from the investment have helped the refinement of BII's fund investment strategy over the proceeding years since the investment was made in 2008.
3. The investment no longer appears on the BII website because APF-I, and therefore BII, are no longer invested in the company. In accordance with BII's [Transparency Policy](#), exited investments made prior to 2012 are removed from the website. BII publishes information about exited investments from 1 January 2012 for a minimum of ten years after the date of the initial investment, as well as maintaining an online archive of all our previous Annual Accounts and Annual Reviews.
4. As set out in BII's [2022-2026 strategy](#) (see page 20) BII's approach to investing in private healthcare focuses on investing in providers that have a [positive impact on the overall healthcare system](#) in a country, particularly regarding access and affordability. Areas of focus are: the manufacturing of medicine, vaccines, devices and equipment; pharmacy and retail logistics; treatment and delivery; early-stage funding for research and development and health-technology companies; and market-shaping interventions combining the public and private sector.

Q. In relation to BII's intermediaries and fund managers, how many are ex-BII or ex-CDC employees? [Q209]

5. Between 1 January 2012 and April 2023, BII committed capital to 152 investment funds managed by 123 fund management companies (known as General Partners, GPs). A fund management company will typically have 3 or more partners running the firm – for large funds this may extend to 10 individuals. Of the 123 fund management companies that BII committed capital to, 8 fund management companies currently have partners or co-founders who were employed by BII (totalling 14 individuals). More than half of these individuals left BII before 2012.
6. In addition, 3 former BII employees are currently working in less senior roles at other fund management companies, all of whom joined the fund management companies after BII had made its original investment.
7. Given BII's role as a significant investor in businesses in Africa, BII would expect some of its employees to leave BII and develop their careers at other organisations or companies working in a similar field. This is a net positive for the field of emerging market and impact investing as they can share their knowledge of managing investments for development impact.
8. Processes and controls that avoid of conflicts of interest are covered in points 8-10 (p.2).

Q. What controls in place over BII fund managers? [Q213]

9. BII has outlined its rationale for using funds and why they can be an effective way of delivering development impact in earlier written evidence (see paragraph 30). A summary of controls in place was also outlined in the written evidence (see paragraphs 11, 26, 27, 28, 31 and 32).
10. Prior to making an investment in a fund, BII undertakes significant due diligence on the fund manager. BII conducts due diligence on all financial, commercial, legal and impact considerations of the investment, as well as on the environmental, social and business integrity (ESG) standards of the fund manager. BII's ESG requirements are set out in detail in its 2021 [Policy on Responsible Investing](#) (see Section 2 and Annexes A-C for specific requirements). The Policy outlines the minimum controls that are expected for a fund manager to have in place. BII's pre-investment due diligence tests whether a fund manager meets these requirements prior to investment. Full background checks on the managing partners and key stakeholders, identifying any conflicts of interest, will also be conducted alongside an assessment of risks associated with the fund manager's investment strategy.
11. All the information from the due diligence will be shared with BII's [Investment Committee](#). Reflecting the realities of operating a business in the countries where BII invests and BII's mandate, not all investees will meet the requirements at the time of investment. In these cases, either BII will not proceed with the investment or gaps will be addressed through legally binding action plans, which are then monitored post-investment. The parameters along which the fund can invest BII's capital are set out at the point of investment in a legally binding limited partner agreement. This stipulates the sectors, geographies, and demographics. As outlined above, the obligations that the fund manager needs to meet from an ESG perspective are set out in the Policy on Responsible Investing.
12. BII's specialist staff have frequent interaction and oversight of investees, including funds. Investments are formally risk assessed on a quarterly basis across dimensions of risk including development impact; environmental, social, governance and business integrity (ESG); and commercial. Those that are potentially off-track against the investment thesis are escalated for discussion with the relevant Managing Director and the Offices of Chief Impact

Officer, Chief Risk Officer and Chief Investment Officer. Specific actions are identified that BII should take in response. Those classified as higher risk or underperforming will be reported to Managing Directors and the CEO, with Board oversight. High environmental, social and business integrity risks are reported on to the Department (FCDO). A dedicated function exists that addresses material events or adverse developments in high-risk or underperformance cases. Where specific actions are identified in response to high risks, BII will work alongside other investors to help find solutions.

13. To monitor action plans and ensure ESG controls are operating effectively in practice, BII has information access and reporting rights with the fund manager, including requirements to report any breaches of ESG standards. Specialist teams within BII actively work with investees to improve implementation, undertake capacity building, and ensure action plans are completed. For example, between 2019-2022, BII delivered training on E&S and Business Integrity topics to over 750 participants, including across 200 fund managers and portfolio companies in South Asia and Africa. BII will also have a range of formal oversight mechanisms, including a seat at - and often chairing - the fund's advisory committee; receipt and review of regular reporting on the performance of the fund and its investments; participation in ESG committees for dedicated discussions on ESG topics; rights to review initial due diligence undertaken by the fund on its underlying portfolio investments; requirements to report adverse events; and visits to the fund's portfolio companies to review implementation.
14. BII will fully investigate any allegation of misconduct against a fund manager or investee. It has a range of tools it can use when a fund manager does not comply or is suspected of not complying with the partner agreement or the Policy on Responsible Investment. Where relevant, BII will take up inspection and investigation rights - including appointing independent investigators - to provide detailed assessment of the allegations and remedial measures needed. BII will then work with other investors and the fund manager / underlying businesses so they can meet the requirements expected. Ultimately, BII can take legal action including suspending committed funding not yet advanced.
15. Regarding other intermediated investments, similar levers apply when BII makes debt commitments into banks. BII receives regular information from banks outlining their underlying loans and growth to eligible borrowers as agreed. Compliance with BII's standards is a condition to each disbursement. If matters come to light and are not resolved, there will be an assessment about whether further disbursements should be made. By the end of a 'deployment' period, the investee should provide either (i) a list of sub-loans meeting specific eligibility criteria or (ii) the growth of their portfolio of loans to eligible borrowers by at least the size of the BII funding. BII has the contractual right to request the mandatory pre-payment of the BII loan by the amount of any shortfall.

Q. Have there been any cases of fraud or mismanagement of funds that have been invested? This should include BII investee companies, intermediaries and intermediary investee companies. [Q223]

16. BII is a financial institution subject to the supervision of the Financial Conduct Authority (FCA). The FCA's mandate includes ensuring the implementation of effective systems and controls to mitigate financial crime risks, such as fraud. BII complies with its regulatory obligations to notify the regulator in the event of fraud against the firm.¹
17. Alongside this and in accordance with Company Law, BII's Statutory Auditor conducts an independent audit to attest that the company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards

¹ SUP 15.3 General notification requirements - FCA Handbook – available [here](#).

and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB)². The auditor's statement in BII's Annual Accounts outlines their review of the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations including obtaining and reviewing policies and procedures.

18. In line with industry best practice, BII implements a three lines model to manage fraud and other financial crime risks: i) First line: responsible for assessing and managing the risk of fraud occurring in our investment portfolio; the first line includes the business integrity team, which has a specific mandate and expertise to assess and manage fraud and other financial crimes; ii) Second line: Risk and Compliance teams have roles in overseeing and advising the first line and ensuring that fraud risk is being effectively managed in line with BII's regulatory requirements; iii) Third line: Internal Audit function provides independent assurance on the design and operational effectiveness of the implemented processes by the first and second lines. The Second line functions provide quarterly reports to the Executive and Board committees on fraud-related matters to ensure the appropriate oversight and governance of fraud risk management.
19. The Department (FCDO) have oversight of matters related to fraud through: quarterly meetings with BII's Head of Compliance, Head of Business Integrity and Head of Environment and Social teams; quarterly meetings with the BII Chair and executive management team via Quarterly Shareholder Meetings; annual meetings with the Chair of the Risk Committee of the Board; and through the Significant Risk Events process. In addition, the Department independently reviews BII's fraud risk management processes ensuring that BII has effective risk management processes in place – reviewing BII's due diligence processes, contractual requirements, access to the investee to monitor compliance, legal redress in the event of non-compliance, and the need to have appropriate risk management processes and that these requirements are in place for sub-investments.
20. As outlined in the hearing, there has been one recent incident of fraud directly against BII. This case occurred in 2017 and it is alleged that monies withdrawn from the Abraaj Growth Markets Health Fund by Abraaj Group entities were used for unauthorised purposes. BII's established monitoring processes alerted us to the possibility of unusual activity in the fund. Following an intervention by BII and other fund investors, monies improperly obtained from BII and those investors were returned to them, without significant monetary losses.
21. Following the return of funds, the underlying assets were transferred to another fund manager. BII has since revised valuations of these assets to reflect a variety of factors, including operational challenges within those companies and prevailing market conditions. The current carrying value of those investments does not yet constitute an incurred capital loss.
22. BII undertook a lessons learned exercise in respect to its investment in Abraaj, implementing a series of changes to its internal processes and leading changes in wider market practices. BII revised the Policy on Responsible Investing to clarify the definition of business integrity managements systems and controls and what - at a minimum - is expected of every investee to have in place. Additionally, access rights to review a fund manager's approach to business integrity risk management, their due diligence and access to information about high-risk companies in the portfolio have all been enhanced. Changes to internal processes included having a single, senior individual who manages the scope of BII's relationship with any large fund manager, limiting exposure to any single fund manager to ensure risk exposure is precisely managed, and ensuring that the financial

² International Standard on Auditing (UK) – FRC - available [here](#).

health, governance and sustainability of the fund manager is a core element of due diligence on any fund.

23. ICAI's review, "Tackling fraud in UK aid, 2021", looked at BII's fraud processes and made the following assessment: *"With one older CDC investment, we found that due diligence at the time was inadequate to identify key risks. In that case, following investment, CDC and other development finance institutions (DFIs) identified concerns in how slowly funds were being deployed, leading to the DFIs recalling their investment. The fund later collapsed. CDC noted that this event, and the lessons learned from it, resulted in new industry-wide practice emerging with an enhanced focus on and transparency around business integrity risks for investors into investment funds, including strengthened monitoring and engagement on such risks post investment. This is also reflected in subsequent changes made in CDC's own due diligence and risk management practices which, if followed, should help to prevent similar occurrences."*
24. BII has a zero tolerance for fraud and corruption. BII's mission, however, does lead it to invest in countries where fraud and corruption are systemic risks, for example in fragile and conflict-affected countries. It is for this reason that BII has strong processes and systems in place to protect against financial crime. At a transaction level, BII's mandate includes trying to effect change by implementing anti-corruption and fraud risk management systems within investee companies and supporting broader collective action to achieve market change where possible.
25. BII will investigate alleged incidents of fraud committed against or by an investee company in the portfolio. These may be uncovered by BII or alerted to BII through BII's Report and Complaints Mechanism. Once investigated, these incidents may have no direct financial impact or loss for BII but may breach the Policy on Responsible Investing and appropriate action taken. Management of allegations or incidents of fraud in the portfolio is overseen by senior executives independent from the First line and summarised in Executive and Board level committees. In the event of a credible allegation or incident of fraud at an investee, BII has several options it can pursue, including commissioning independent investigations; implementing action plans to strengthen fraud controls; and suspension of funding. BII would also report any knowledge or reasonable suspicion of criminal activity to the relevant regulatory authority falling within the scope of the Proceeds of Crime Act 2002.

Q. The Chair requested BII find better ways to celebrate the work BII does around women and girls, citing the only tool we have to scrutinise BII in this area is through the 2X Challenge. [Q258]

26. Gender lens investing is an emerging field and the 2X framework has played a key role in bringing focus to the challenge. BII – as a founder of the 2X Challenge - is proud that the 2X Framework has become the global standard for Gender-Lens Investing and that the 2X Challenge has evolved from a mobilisation target into 2X Global, an industry body for gender-lens investing, with 100 members including 20 DFIs and MBDs. The framework has assisted in mainstreaming gender into BII's investment decision-making processes, allowing BII to systematically assess all investments for gender gaps and opportunities.
27. BII's ambitions are not static and over recent months BII has led an alliance of DFIs – in collaboration with 2X Global – to strengthen the 2X framework. Examples of the refinements being adopted include the need for demonstrated 'intentionality' towards gender equality and strong safeguarding systems in place in advance of 2X qualification, alongside the re-benchmarking of sector thresholds under the Employment criterion.
28. 2X is just one element of BII's wider approach to positively impact women and girls and BII welcomes the Committee's support in highlighting this wider work. In nearly all 2X

qualifications, BII integrates additional gender targets into Memorandums of Understanding (MOUs) to ensure qualifying investees continue to improve women's representation and inclusion over the course of the investment. Other investments may be starting from a lower base. This is often where BII's opportunity to enhance gender diversity is greatest. In such cases, BII can provide advisory support or technical assistance to help investees increase women's representation and inclusion at all levels, and/or better target their products and services to underserved women and girls.

29. An example of this is Ecom Express, a logistics company in India. When BII first invested, women comprised less than 2% of the total workforce. As part of the investment, BII undertook a comprehensive gender diagnostic to identify opportunities for developing a more diverse workforce. This was codified in a timebound Gender Action Plan (GAP) including targets for senior management, mid-management and the broader employee base. Ecom Express successfully implemented all actions from the GAP and average annual female representation across the workforce has increased to ~6%, a small percentage but one that represents the creation of more than 1,900 jobs for women in a highly non-traditional sector in less than four years. In addition, Ecom Express has rolled out gender sensitisation trainings, monthly reviews of sex-disaggregated attrition data, infrastructure audits of all delivery hubs with female employees (including Ecom Express' six women-only delivery hubs) and has made improvements to ensure a gender-inclusive work environment for Ecom Express' staff.
30. Beyond BII's work to advance gender equity at individual investee level, BII has made significant contributions to peer learning and building the field for gender-lens investing. BII dedicated [Gender Toolkit](#) – which has 11,000 site visits – provides practical tools, templates and guidance to support companies and fund managers take steps to become more 'gender-smart'. This is reinforced through BII's Gender-Smart Investing Training, which has been delivered to over 100 investees over the last five years.
31. BII is always seeking to learn and gender interventions are scrutinised by independent evaluators through the FCDO-BII Evaluation and Learning Programme. Each sector evaluation includes analysis of the gender impact and recommendations for improving impact and BII responses are published on FCDO's and BII's website. In addition, ICAI reviews of BII have also included analysis of the effectiveness of Gender Action Plans and BII's gender interventions. This year, BII is undertaking an evaluation of women-led and owned- investments in the portfolio to better understand the enabling factors and pathways that shape their development impact for women and girls.
32. In addition, BII has a series of upcoming activities to raise further awareness of our impact for women and girls. These include a focused learning report on BII's Gender Impact; a learning session scheduled with FCDO staff to share BII's approach to integrating gender into all stages of our investment lifecycle; and a civil society (CSO) engagement event to enhance collaboration and communication with gender-focused CSO counterparts.

Additional information / clarifications

FCDO oversight of BII

33. BII set out FCDO's oversight in the earlier written submission made to the IDC (key points are available in the answers to questions four and six). Furthermore, [this letter](#) from the Department (then DFID) to Meg Hillier MP in her role as Chair of the Public Accounts Committee sets out detailed rationale for the current governance model (see pages three to five).

Civil society engagement undertaken by BII

34. BII outlines its stakeholder engagement activity on p. 57-59 of the Annual Accounts. Alongside regular interactions and requests, BII engages with civil society through several targeted activities. Once a year, members of BII's Board and Management hold a meeting with senior leaders from UK based NGOs, think tanks and academia. This year it was held in early May and provides an opportunity for discussion and questions from the sector. At the most recent session, over 20 organisations were represented including Bond, Oxfam, WaterAid, ONE Campaign, Save the Children, Plan UK, Christian Aid, UNICEF, Chatham House, and the Overseas Development Institute.
35. BII also hosts Dialogue Sessions aimed at working-level civil society representatives with a deep dive into key thematic areas. In 2022, three events took place including on the topics of impact management, responsible investing, and climate policy. The Dialogue Sessions are in addition to public facing events such as the Annual Review and regular 'Insight' events (more information [here](#)), covering topics including accelerating Africa's energy transition; the circular economy; and investing in fragile states.

Community engagement undertaken by investees and BII's own accountability mechanism

36. At the community level, investees are expected to develop and follow a Stakeholder Engagement Plan, particularly for more complex (for example, infrastructure) projects. The nature and frequency of engagement reflect the level of project risks and impacts. It should tackle how the investee will engage with, understand, and mitigate local concerns and can underpin their social licence to operate. Where such engagement plans are not adequate, BII would seek to improve it via Environmental and Social Action Plans (ESAP), which are legally binding and established at the outset of the commitment being made. BII also requires investees to develop and implement a 'grievance mechanism' aligned with the requirements of the IFC performance standards.
37. BII's own Reporting and Complaints Mechanism provides further assurance. It allows anyone outside BII to report alleged breaches of the Policy on Responsible Investing by an investee or a portfolio company of a fund in which BII has invested or a failure of BII to follow the policy. Affected people can submit complaints to BII via the Mechanism, which, if deemed eligible, will be investigated, and where appropriate, BII will enable access to remedy.
38. Decisions required under the Mechanism are made independently of the departments involved in the due diligence or monitoring of the investment to avoid conflicts of interest. Matters related to the Complaints Mechanism are reported to Board Audit and Compliance Committee.

Evaluations of the performance of BII's investments

39. BII outlined its approach to evaluations in the recent Written Evidence submission (see paragraphs 18 and 33-34). Reviews of both the [infrastructure](#) and [financial institutions](#) sector portfolios have been published. Both found c. 80% of BII's investments in those two portfolios are on track or outperforming their impact thesis. The third sector evaluation, looking at industries, technology, and services investments in BII's portfolio, is currently under way.