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Sarah Champion MP, Chair, International Development Committee
House of Commons
London
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31st August 2023

Dear Sarah Champion,

Planned UK Aid financing to BII

We are grateful to have had the opportunity to contribute to your ongoing inquiry on 'The UK's strategy towards Development Finance Institutions'. This inquiry is vital to ensuring that an evidence-based and development-oriented approach is taken to the UK's engagement with and funding of DFIs.

Ahead of the IDC publishing the report from this inquiry, we are writing to highlight recently published information on the UK's planned future contributions to British International Investment (BII) and to share our concerns about these plans. We hope that you will take account of these developments in your final report.

In July, the Foreign Commonwealth and Development Office (FCDO) published an addendum to its Business Case[i] for supporting BII. This addendum provides an updated schedule of planned financing for BII over the period 2026/27. The schedule of total planned financing presented in this Business Case is detailed below:

	2022/3	2023/4	2024/5	2025/6	2026/7	5-year total
Financial transactions	£580m	£580m*	£750m	£1,170m	£1,000m	£3,500m
Resource DEL	£6.47m	£5.18m	£4.28m	£12.14m]	£12m	£40m
* Financial Transactions issued in 23/24 is less the amount issued in 22/23.						

As you can see, the government is looking to provide £750 million to BII in 2024/25, £1,170 million in 2025/26 and £1,000 million in 2026/27. Based on current projections of GNI[ii] this level of financing would be equivalent to **7.1% of the total UK aid budget (annual average of almost £1 billion)** over the three-year period 2024/25-2026/27. This is a significant increase in BII's share of the UK aid budget, which has **averaged 4.5% (annual average of £615 million) during 2017/18-2022/23.**[iii] Compared to previous years, **BII will be receiving a more than 50% increase in its proportion of the UK aid budget.**

We believe that these levels of funding to BII are unjustified for 4 reasons.

Firstly, there are unprecedented pressures on other key areas of the UK aid programme, which have suffered from four consecutive years of spending cuts. The results of these cuts have been illustrated by the FCDO's recently published Equality Impact Assessment, which identified that in 2023/24 there were cuts to central programming on girl's education (54% cut) and human development (48% cut), with significant negative effects projected on reproductive health and basic services[iv]. Increasing investments in market-based approaches to eradicating poverty at the expense of investments in human development is not consistent with the government's commitment to promoting inclusive growth[v] and is likely to reinforce economic marginalisation and limit poverty reduction impacts from the UK aid programme.

Secondly, there are significant ongoing concerns about the performance of BII in meeting critical development and other indicators, which we have highlighted in recent submissions to this inquiry. There are particular weaknesses in:

- Transparency – A recent report by Publish What You Fund (PWYF) ranked BII as the 12th most transparent DFI out of 21 assessed, with a score of 26.5 out of 100. This indicates some very significant deficiencies in transparency.
- Focus on the least developed countries – Bond's analysis of BII's investments over the last 5 years found that only 21% of these (by value) were focused on the Least Developed Countries (LDCs), where resource constraints and investment needs are most pronounced. This compares to a figure of 50% for FCDO programmes overall. Planned BII spending in Ukraine will only widen the gap between UK aid-backed investments in low and middle-income countries.
- Questionable investments in education and health services – BII has been found to have invested in private hospitals that have been serving predominantly wealthy clients and applied questionable patient practices. It has also supported the private education chain Bridge International Academies, which has been found to provide poor levels of schooling, safeguarding, and accountability to parents.
- Local ownership and accountability – Soon-to-be-published research by Bond, illustrates that BII isn't practicing systematic engagement with local stakeholders to inform and align investment decisions with national development priorities.

Thirdly, allocations of FCDO support to BII seem to have been driven in large part by arbitrary targets for FCDO capital and financial transaction spending, rather than evidence-based decisions about what allocations of UK aid will help to maximise impacts in supporting poverty reduction and sustainable development.

Finally, increasing the share of UK aid channelled through BII means increasing the share of ODA provided in the form of debt, equity, and fund investments rather than grants, which in the current climate of financial distress in many developing countries raises significant concerns.
In light of this new information, Bond and under-signed don't support the planned increases in UK aid being delivered through BII until the overall pressures on UK aid are alleviated; vital spending on women and girls, education, health, social protection, and other poverty-focused priorities are restored to pre-cuts levels; and weaknesses in the performance of BII are addressed. We hope the IDC will consider this new evidence ahead of the publication of its report.

Yours sincerely,

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Co-signed by:
Graham Gordon, Head of Public Policy, Cafod
Helen Thompson, Director of Programme and Policy, CARE International UK
Jessica Woodroffe, Director, GADN

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[i] See - https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fiati.fcdo.gov.uk%2Fiati_documents%2FD0003303.odt&wdOrigin=BROWSELINK

[ii] See "March 2023 Economic and fiscal outlook – supplementary economy tables (Tab 1.2)", Office for Budget Responsibility, link.

[iii] In giving evidence to the IDC in April 2023, Diana Layfield, noted that *"BII's share of ODA allocation has been roughly constant since2015 at just under 4% on average"*, Oral evidence: Investment for development: The UK's strategy towards Development Finance Institutions, HC 884 (Q192), link.

[iv] This Equality Impact Assessment (link) identified that as a result of the cuts in 2023/24 in Yemen half a million women and children will not receive healthcare and in Ethiopia 47,000 teachers and education leaders would not get training.

[v] See The UK Government's Strategy for International Development, May 2022, page 8, paragraph 5, link.