PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Seventh Delegated Legislation Committee

DRAFT COMMONWEALTH DEVELOPMENT CORPORATION (LIMIT ON GOVERNMENT ASSISTANCE) REGULATIONS 2023

Wednesday 5 July 2023

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Sunday 9 July 2023

The Committee consisted of the following Members:

Chair: GRAHAM STRINGER

† Bacon, Gareth *(Orpington)* (Con)
Benn, Hilary *(Leeds Central)* (Lab)
† Brennan, Kevin *(Cardiff West)* (Lab)
† Britcliffe, Sara *(Hyndburn)* (Con)
† Cruddas, Jon *(Dagenham and Rainham)* (Lab)
† Elmore, Chris *(Ogmore)* (Lab)
† Gill, Preet Kaur *(Birmingham, Edgbaston)* (Lab/Co-op)
† Hall, Luke *(Thornbury and Yate)* (Con)
† Harris, Rebecca *(Comptroller of His Majesty's Household)*
† Hart, Sally-Ann *(Hastings and Rye)* (Con)
† Henderson, Gordon *(Sittingbourne and Sheppey)* (Con)
† Leadbeater, Kim *(Batley and Spen)* (Lab)
† Mackrory, Cherilyn *(Truro and Falmouth)* (Con)
† Mitchell, Mr Andrew *(Minister of State, Foreign, Commonwealth and Development Office)*
† Mortimer, Jill *(Hartlepool)* (Con)
† Oswald, Kirsten *(East Renfrewshire)* (SNP)
† Penrose, John *(Weston-super-Mare)* (Con)

George James, *Committee Clerk*

† attended the Committee

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Wednesday 5 July 2023

[Graham Stringer *in the Chair*]

Draft Commonwealth Development Corporation (Limit on Government Assistance) Regulations 2023

2.30 pm

The Chair: Before I call the Minister, I want to say that it is very warm and close in here, so if right hon. and hon. Members wish to take their jacket off, they have my permission. Minister, will you be good enough to move the motion?

The Minister of State, Foreign, Commonwealth and Development Office (Mr Andrew Mitchell): I beg to move,

That the Committee has considered the draft Commonwealth Development Corporation (Limit on Government Assistance) Regulations 2023.

The draft statutory instrument was laid before Parliament on 6 June, in accordance with section 15(6) of the Commonwealth Development Corporation Act 1999. It is subject to the affirmative procedure and will be made once approved by the House.

I will start with a brief overview of British International Investment. The primary purpose of the draft regulations is to permit the Government to increase the assistance available to BII—formerly the Commonwealth Development Corporation—from £6,000 million to £9,500 million. The increase will enable the Foreign Office to increase financial support to BII in line with the new five-year technical strategy. As the UK's development finance institution, BII invests long-term patient capital in private companies in developing countries' pioneer markets. That delivers benefits that last. BII has a dual mandate of development impact and financial sustainability.

BII has a rich history and long commitment to supporting development around the world. Over the previous five-year strategy, from 2017 to 2021, BII made £7 billion-worth of investment in more than 600 investments, mobilising about £2.5 billion in additional capital from the private sector. I hope that right hon. and hon. Members will join me in recognising just how extraordinary and impactful those numbers are, and what they represent. Over the same period, BII supported businesses that employed more than 1 million workers, generated 277,000 GWh of electricity, and paid more than £10,000 million in taxes into the relevant exchequers.

BII's investments are largely self-financing. Increases in taxpayer support allow it to accelerate the speed at which it makes new investment, thereby increasing its development impact. That increase in speed and size helps it to contribute more to the achievement of the UN sustainable development goals. The Commonwealth Development Corporation Act 2017 amended the Commonwealth Development Corporation Act 1999 to increase the limit on taxpayer assistance to BII from £1,500 million to £6,000 million, with a further power to increase taxpayer assistance to an amount not exceeding £12,000 million by way of a statutory instrument.

The aggregate amount of assistance provided to BII by the taxpayer to date is £5.2 billion. We launched BII's 2022 to 2026 technical strategy in November 2021. In support of that, a new share subscription agreement was approved by His Majesty's Treasury on 7 December 2022, based on the current spending profile. Under that agreement, the Foreign Office will reach the £6 billion maximum limit for support of BII by June 2024. The funding profile agreed under the share subscription agreement in December 2022 is required to enable BII to deliver on its 2022 to 2026 technical strategy ambitions.

The strategy commits BII to greater ambition on geographical spread, climate and gender impact. The provision of increased support is critical for BII to continue implementing this strategy, which is the cornerstone of wider publicly announced ambitions under the Government's British investment partnerships, 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. Expanding BII's reach into new markets of strategic importance to the UK, consistent with its mandate laid down by the shareholder, will enable it to continue as a key vehicle for our economic development objectives, helping to build greener and more prosperous economies.

In summary, my priority is to ensure that UK aid is used effectively to help achieve the sustainable development goals, to achieve value for money for UK taxpayers and to deliver in our national interests. The regulations will enable us to deliver on BII's full potential in continuing to promote productive, sustainable and inclusive development. I commend the regulations to the Committee.

2.36 pm

Preet Kaur Gill (Birmingham, Edgbaston) (Lab/Co-op): I am grateful to the Minister for outlining the new regulations.

I begin with some comments on BII's role and objectives. The Opposition recognise the private sector's important role in the development journeys of low and middle-income countries. The creation of new jobs and markets, especially for Africa's young and fast-growing working-age population, the boosting of economic growth, productivity and tax receipts, and delivering innovative new products, services and infrastructure to meet the needs of poorer countries are all vital components of a genuinely sustainable development strategy.

Within that, I recognise the good work BII has been doing in supporting the delivery of the world's first malaria vaccine, reducing pollution and deforestation in Malawi through investment in low-carbon building material providers, and scaling up access to off-grid solar energy systems for families and businesses that cannot access electric grid connections.

I commend all that good work, along with BII's focus on Africa and its work on climate innovation and tech. However, we are here today to debate this amendment to the Commonwealth Development Corporation Act 1999, which would increase the maximum that the UK can funnel into BII by £3.5 billion.

We live in a time of intense converging global crises: the war in Ukraine, the global cost of living crisis, the sovereign debt emergency in Africa, record levels of conflict and displacement and hundreds of millions falling back into extreme poverty as a result of all those crises. The FCDO has slashed aid year on year, used the budget like a Government slush fund and funnelled billions into the Home Office black hole to deal with a self-made asylum accommodation crisis, so we have to ask the question: is channelling billions more pounds of scarce official development assistance into BII really the best use of Government resources?

First, let me be clear about that context. Investments through BII have a limited and specific role in Britain's development policy if we are serious about SDG 1: eradicating poverty. Indeed, BII does not even use the standard World Bank definition of extreme poverty of having an income below $2.15 per day, instead using a higher threshold of $5.50. That shows that its work is less able to reach the very poorest and most marginalised. Even then, BII does not provide disaggregated data on the quality of jobs its investments create, including wages relative to local averages or poverty lines.

Does the Minister think efforts should be made to make that basic information publicly available, and is it something he has requested and had access to in advance of shareholder meetings? Does he share my concern about the low number of jobs BII is creating for women? By its own count, only 28% of the new jobs it created in 2021 were for women. Although I recognise the work done through the 2X Challenge, do the loose and optional objectives it set out not illustrate precisely my point that a DFI is often not the best vehicle to deliver on many of the Government's development objectives?

That is not to say that I do not commend the progress that BII has been making on some of these points since it came under fire from the Independent Commission for Aid Impact in 2019, but there must be an honest conversation about whether this is the best use of what is left of the development budget. Given those constraints, what claim can BII make as a better investment for poverty reduction than all the other bilateral programmes being cut?

Secondly, on transparency and accountability, in last year's Publish What You Fund DFI transparency index, BII scored 26.5 out of 100, behind its equivalent organisations in the US, France, the Netherlands and Germany. Before this Government destroyed it, the Department for International Development took the top spot among bilateral donors in the international aid transparency index for eight years in a row. The Minister used to take transparency and value for money very seriously when he was Secretary of State, and he is asking to plug more billions of pounds into an organisation that provides only basic information to the taxpayer about its work. On environmental, social and corporate governance, accountability to communities and financial information, BII came joint bottom in the transparency index. At the International Development Committee, it has been called out for its reliance on opaque financial intermediaries and for its failure to mobilise investments in projects that the private sector and other DFIs are not funding anyway.

I noted that the Minister said in a recent Chatham House speech that he accepts many of the criticisms on transparency, and he would set out a road map of commitments to improve BII's performance. Would it not make sense to have a clear plan to improve things before handing over more billions of taxpayers' cash? For example, one thing that other DFIs have are mechanisms that allow communities to hold them to account. The German DEG has one; the World Bank International Finance Corporation has one too. Could BII consider developing one? What efforts is BII making to ensure that the intermediated private funds that it invests in are not domiciled in tax havens, and can the Minister explain how he expects to restore Britain's reputation as a development superpower while funnelling money into opaque private equity funds and financial intermediaries at the expense of UK-branded development assistance and aid?

These questions are not just an abstraction. Last week, I hosted a briefing in Parliament with Oxfam about this new report into DFI investments into for-profit hospitals, where I heard the story of Francisca Wanjiru, a Kenyan woman whose mother died at one of the for-profit hospitals in which BII is invested. For years, Francisca has had to live with the haunting fact that her mother's body is lying locked inside a freezer at the Nairobi Women's Hospital mortuary and she cannot get her out. For years, the hospital has refused to release her mother so that she can be properly laid to rest, because Francisca is too poor to pay the hospital fees that racked up when her mother fell ill.

I was deeply moved by Francisca's story. She accrues another 500 shillings in fees every day that she cannot afford to pay for her mother's release, and such situations are not uncommon, as Oxfam's recent report "Sick Development" outlines. The report describes patients blocked from access or bankrupted by eye-watering hospital bills that should never have been charged—patients even imprisoned in hospitals for being too poor to pay. These hospitals are often charging fees that are simply out of reach for ordinary people to meet, and Oxfam has found some hospitals charging more than someone's annual average income for basic maternity care. Not only is that clearly not helping the poorest people in those countries, but in some cases it is making accessibility and affordability worse. In Uganda, Oxfam found a hospital that BII invests in where prices increased by an incredible 60% in just four years.

The report contains some harrowing stories, and it raises serious concerns about the development impact of some of these investments and BII's due diligence. Why has it taken years of careful research by a non-governmental organisation to shed light on something that basic functioning oversight mechanisms would have surely picked up and put an end to years ago? I hope that the Minister can tell us what action is being taken in response to the report, and whether, as BII's sole shareholder, the Government will rule out any further investments in for-profit hospitals.

It is surely uncontroversial to ask that the significant sums of public money that we are talking about should not be invested in businesses that are undermining British policy objectives. Private hospitals are not the only example. There has been the Bridge schools scandal. There has been BII's flagship billion-pound investment in DP World, the Dubai-owned parent company of P&O Ferries, which summarily sacked its British workers, frogmarched them out of their place of work and rehired foreign staff to replace them on poverty pay of around £1.82 an hour last year. There have also been its investments in the China National Investment & Guaranty Corporation, which is linked to the belt and road initiative.

[Preet Kaur Gill]

I was concerned to hear the Minister's response at the International Development Committee in response to some of these concerns, that BII should simply be left to "get on with it". That is a remarkably lax response to the risk that millions of pounds of taxpayers' money is being funnelled into projects that undermine UK policy objectives. At a time when needs are increasing and money is tight, it is surely more crucial than ever that taxpayers' money is spent as effectively as possible, and I hope today that the Minister can give me some answers to the concerns that have been raised.

Lastly, I wanted to ask the Minister about what is driving UK development policy, as it simply does not make sense to me. Why, one might well ask, is BII the only untouchable domain of UK development spending, when we are scaling back climate finance, when bilateral aid to Africa has been parked, and support to desperate Afghans fleeing the Taliban, who now comprise the biggest group crossing the channel on small boats, has been cut to ribbons?

I have a theory. At the last spending review, 2021, the FCDO was given a £2.4 billion target to spend on financial transactions over three years—a new category of Government spending that was introduced by the coalition Government a decade ago. These financial transactions notionally involve the purchase of an asset and are excluded from the Government's fiscal rules on the deficit and borrowing. I understand the attraction: after crashing the economy and with inflation soaring, the Chancellor wants to channel more and more money through a mechanism that does not register as day-to-day spending but, as things stand, the target set at the spending review would mean that at least £1.2 billion—around 10% of the total official development assistance budget—must be spent on financial transactions next year. That leaves Ministers with few options but to repeatedly recapitalise BII.

The difficulty is that that is a terrible way of deciding policy. The Treasury might like it, but how will it deliver impact for the very people that the ODA budget is meant to reach, not least when as much as 40% of the bilateral budget is now being spent within the United Kingdom instead of abroad? BII is already limited in what it can invest. Often, the challenge is that in the very poorest countries there simply are not enough businesses with the capacity to absorb the kind of money that BII wants to spend. Meanwhile, war rages in Ukraine, the global economy tightens, a sovereign debt crisis in Africa grows and record numbers of people are displaced by conflict, instability and disaster.

BII has a limited role in tackling many of these challenges, even where it is integral to creating the fertile investment environment, new markets and new job opportunities in the private sector in low-income countries—never mind its own mandate to turn a profit. Despite lofty promises to repair the damage this Government have done to our international reputation in development, accounting trickery rather than impact still seems to be driving Government policy, and it is all of us who are invested in a safer, greener, fairer world who will lose.

I will not divide the Committee on the draft regulations, as I recognise that the Government have already almost breached BII's financial limit, and I will not seek to frustrate planned investments in things like Ukraine's economic recovery. However, I hope the Minister will respond to my concerns—I know he will.

Transparency and value for money must be restored to UK ODA spending. A Labour Government will ensure that taxpayers' money is spent with the respect it deserves. We will undertake a root-and-branch review of BII, including its mandate, transparency reporting and governance arrangements, to ensure it is supporting and not undermining UK policy objectives. Britain once led the way in principled, poverty-focused, transparent global development. Under the next Labour Government, we will make sure it does so again.

2.46 pm

Kirsten Oswald (East Renfrewshire) (SNP): I am grateful for all that the Minister and the shadow Minister, the hon. Member for Birmingham, Edgbaston, have said. Both speeches were helpful. It is obviously a hugely challenging time across many areas of the world, and I certainly have serious concerns, as do my Scottish National party colleagues, about the erosion of aid and support at a time when they are so needed. In the current context, all measures for poverty alleviation are important.

It is important that we look at the three objectives that underpin the funding profile: raising productivity, the focus on sustainability, which is particularly important, and inclusivity. The points made by the shadow Minister about making sure that we are delivering in a real, constructive way for women are important. Like her, I do not intend to divide the Committee on the regulations, as any efforts to support poverty alleviation must be welcomed. However, while the uplift in funding is something that we agree to, it should be part of a bigger picture conversation outside this Committee.

2.48 pm

Kevin Brennan (Cardiff West) (Lab): I tend to come to these Committees and only contribute when I am invited to do so. This measure is the sort of thing that conforms to what I would call the inverse rule of public finance: the greater the sum of money involved, the less discussion there is and the more disinterest shown by Members in what the money is being spent on. With this statutory instrument, we are talking about an extension of £3.5 billion in the money that the Government are making available.

I take that back after listening to the contribution from my hon. Friend the Member for Birmingham, Edgbaston, who has done exactly what should be done on these occasions, despite the grumbling of Government Members, who obviously have other things they would rather be doing than scrutinising the expenditure of £3.5 billion of public money this afternoon.

Gareth Bacon (Orpington) (Con): Get on with it.

Kevin Brennan: If the hon. Member wants to intervene and make his points to the Committee on the record, I am very happy to give way, because he has been grumbling all the way through this whole Committee.

Gareth Bacon (Orpington) (Con): Stop showboating.

Kevin Brennan: I think I heard him sey I am showboating. I am in fact doing what the—*[Interruption.]*

The Chair: Order.

Kevin Brennan: Thank you, Mr Stringer. I hope I remain in order throughout my contribution, unlike the hon. Member for Orpington.

My hon. Friend the Member for Birmingham, Edgbaston did her job admirably. I just have a couple of questions for the Minister, who will be relieved to know that I am not going to rebel against my own Front Bench and force a Division—they can never be sure, but I can confirm that is the case today.

What is the Minister's assessment of the impact of using some of the assistance in order to assist reconstruction in Ukraine? What impact would that have on other projects around the globe that the investments are intended to support? One thing that I am not sure about, despite having read the briefing in an attempt to educate myself, is the position on social enterprise with these kind of investments. I know that it is principally designed to target private sector investment, but does social enterprise, which comes in a variety of forms as the Minister is aware, have a chance to benefit from BII investment?

2.50 pm

Mr Mitchell: I am grateful to the hon. Members who have contributed to today's debate, and I will try and address the questions and points that they have raised. First, I am grateful to the hon. Member for East Renfrewshire for her support; she raised exactly the right questions.

The hon. Member for Cardiff West and I have been in this House for quite a long time; no one would ever criticise him for lack of diligence and hard work, and he sort of explained his attendance in the Committee today. I want to make it clear that none of us on Government Benches would ever accuse him of showboating—apart from my hon. Friend the Member for Orpington, of course.

I have four points to make in response to the debate. First, the hon. Member for Cardiff West talked about spending in Ukraine. He will know that at the Ukraine Recovery Conference it was made clear that BII would play a modest part further down the track, putting its shoulder to the wheel of our national interests, which I think is the right thing to do. Ukraine is not an area that it would normally invest in, but by co-investing with organisations such as the European Bank for Reconstruction and Development, it can help to move forward a policy that both the UK and the Ukrainians want to see realised.

BII has a role in respect of social enterprises, which I will explain later in my response to the hon. Member for Birmingham, Edgbaston. She raised four points, and was very supportive of the concept of BII. She appreciates the all-party basis on which the reforms that I enacted 10 years ago were carried out. We were careful to ensure that we carried the sector and the Opposition with us on those reforms. That is a very valuable consensus, which has propelled BII into a position where it is viewed with enormous respect and is widely regarded as the most effective and best development finance institution in the world. It is not a coincidence that that has happened on the back of the all-party support it has received.

The hon. Lady mentioned the difficulty of allocating ODA money in a very constrained environment, and asked if we should spend it in another area and not on BII. As she knows, under the Act we could have said that BII should receive an extra £6 billion, rather than an extra £3.5 billion—that is what the Act says. We are not doing that; we have reined it right back so that it is taking the same haircut as much else in the ODA budget is taking. I hope she accepts that we have exercised constraint and not just given the BII what it the Act as originally passed entitled it to. In trying to slice the cake with a very constrained ODA budget, we require maximum effectiveness and results for the British taxpayer, and for the aims and aspirations that she and I both want this country to pursue in international development.

Think what BII has achieved: it has directly employed 1 million people, and it is working in the most difficult, pioneering countries for the private sector. Putting food on the tables of, effectively, 1 million people and families is a remarkable result. Look at the massive increase in off-grid and grid electricity and the amount of money paid in tax by BII investments into the treasuries and exchequers of poor countries. Not all that money will necessarily be used well, and another part of that budget tries to ensure that it is used more transparently and better. Nevertheless, raising £10,000 million in tax predominantly in poor or very poor countries is a significant development achievement. I want to make that point to the hon. Member for Birmingham, Edgbaston.

Secondly, the hon. Lady made the point that BII does not, by definition, engage in the most egregious extent of poverty; other parts of the development budget do that. If we take a holistic view across the piece of where we should put our taxpayers' money for maximum effect in achieving the SDGs and driving forward our climate financing and climate result objectives, we must make that allocation. We do not expect BII to address some of the most egregious effects of poverty; we use grant funding and co-financing, and we do it bilaterally and multilaterally through other mechanisms.

Thirdly, the hon. Lady said that she had read my speech at Chatham House—I am grateful to her for doing that—and pointed to the importance of transparency. On that, she, I and the International Development Committee, which is conducting an inquiry and has done so much good work in this area, are more or less agreed. We want greater transparency, partly because if there is not transparency, people think that something is being hidden when perhaps it is not being hidden at all. BII has a vested interest in greater transparency too, and we are talking to the board. We are waiting to see the advice of the International Development Committee on the issue, but we will then be driving forward on transparency as the hon. Lady suggested.

The hon. Lady mentioned that BII scored poorly on Publish What You Fund; actually, it came 12th out of the 21 non-sovereign development finance institutions. I emphasise to the Committee that that resulted partly from a technical issue on the website that prevented data from being unloaded, which has now been resolved. Publish What You Fund has indicated that BII, if it were to remark it now, would be towards the top end of the league table. I am completely with the hon. Lady on her overall point about the importance of transparency, and I hope that we will be able to move forward on that agenda after the International Development Committee has published its report.

The hon. Lady's final point was about the Kenya hospital and the upsetting circumstances that she described. I should make it clear that BII takes all allegations of

[Mr Mitchell]

this sort extremely seriously, and the Foreign, Commonwealth and Development Office is working closely with BII on the matter. We encourage Oxfam to share any further evidence it holds of the alleged cases so that we can accelerate those investigations. I should also make clear that BII has already taken steps at Nairobi Women's Hospital. A new fund manager was put in place in 2019. The new fund manager has put in a new management team at the hospital, including a new CEO, and strengthened procedures. The next five years will see BII prioritise investing in the manufacturing of medicines, vaccines, devices and equipment, pharmacy and early stage funding for health technology.

Kevin Brennan: I think the Minister said that he would say a few more words on social enterprise. I apologise if I missed those in his remarks.

Mr Mitchell: My point was really about the waterfront of different interventions on development. Social enterprise has certainly benefited indirectly from BII investments, but BII is predominantly an equity investor. Countries receive this equity. They do not have to provide a sovereign guarantee and they are not on the hook for paying back the money; it is an equity investment. As I have tried to set out to the Committee, that has a huge role in driving forward the international development aims that we all, across this Committee, want Britain to achieve.

Question put and agreed to.

2.59 pm

Committee rose.