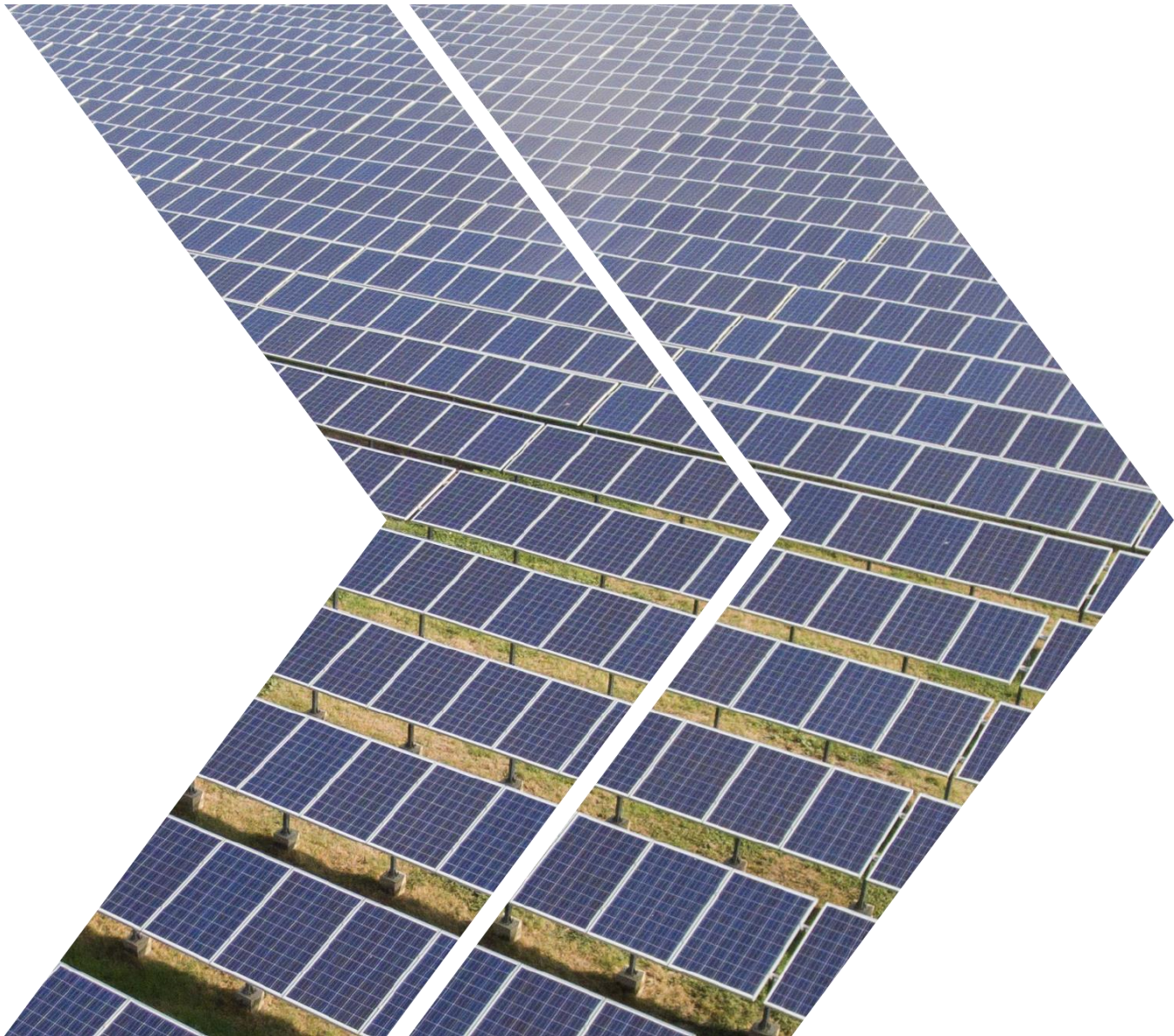


Tax strategy and policy on the payment of taxes and the use of offshore financial centres

February 2022



Policy on the payment of taxes and the use of offshore financial centres

1. BII recognises that tax receipts are fundamental to the ability of governments in developing countries to fund infrastructure and public spending and stimulate sustainable development

BII believes that successful businesses in developing countries should contribute to sustainable growth and development impact, including increased government tax revenues.

BII seeks positive relationships with governments and tax authorities. Accordingly, BII pays its taxes in accordance with applicable laws and regulations and requires its investee companies to pay taxes to which they are subject in the countries where they operate.

BII also monitors and publishes taxes paid and other fiscal contributions made by its investee companies as part of its development impact measurement programme.

2. BII respects the tax policies of governments and supports their ability to tax. Whilst the development of domestic tax policy is the responsibility of governments, BII requires its investee companies to approach tax in a responsible manner.

Prior to investing, BII conducts due diligence commensurate with the size and type of the proposed investment to assess the risk of a prospective investee company adopting irresponsible tax practices.

BII requires that:

- ***Investee Companies are compliant.*** Investee companies should comply with all applicable tax laws in the countries where they operate.
- ***Investee Companies do not engage in base erosion and profit shifting.*** Investee companies should not utilise intragroup transactions or inappropriate transfer pricing methods to artificially divert taxable profits from the countries where they operate.
- ***Investee Companies do not engage in egregious tax planning.*** Investee companies should not engage in other forms of egregious tax planning to deplete local tax bases.

If due diligence indicates tax behaviour inconsistent with these requirements, BII works with its investee companies to develop appropriate remedies, which might include a requirement to disclose non-compliance to the relevant tax authorities or the development of tax processes and systems, which mitigate against further risks of non-compliance.

BII respects the right and sovereignty of developing countries to use fiscal policy to manage their economies.

BII considers it appropriate for investee companies to use targeted tax incentives, including reliefs, claims and exemptions.

3. BII's preference is to invest directly in a country or region where an investee company is located. BII uses intermediate jurisdictions to meet its development priority of mobilising capital into businesses located in Eligible Countries¹ and to protect UK taxpayers' money.

BII's commitment to invest in countries where it can have the most development impact inevitably directs it to countries with weak legal, regulatory and tax systems. BII welcomes and supports efforts to improve these systems. BII also welcomes the efforts of the UK's Foreign, Commonwealth and Development Office (the "FCDO") to improve the investment climates in these countries and to assist tax authorities to increase tax revenues, tackle tax evasion and avoidance and improve administrative capacity. This support includes assistance in the implementation of international tax standards that help tax authorities tackle international tax evasion and avoidance.

BII's uses intermediate jurisdictions only to maximise the flow of foreign investment into Eligible Countries and to ensure adequate protection of UK taxpayers' money.

Given capacity constraints in some countries where BII invests, the use of intermediate jurisdictions may be necessary to provide a stable financial, legal and regulatory environment for investment, furthering BII's developmental impact (for instance, by increasing its capacity to mobilise commercial investors and generate additional investment to support further job creation, increase local tax revenues and drive growth). BII's use of an intermediate jurisdiction will be motivated by these non-tax benefits and never to avoid payment of taxes or transparency.

4. Where BII uses an intermediate jurisdiction for the reasons stated above, it promotes tax transparency by using jurisdictions, which comply with international standards.

BII will only make new investments through an intermediate jurisdiction if:

- (i) the jurisdiction is an eligible country² in BII's investment policy³; or
- (ii) the jurisdiction:
 - a. is successfully participating in the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes and has passed its phase 1 review and been rated 'Compliant', 'Provisionally Largely Compliant' or 'Largely Compliant' following completion of its phase 2 review;

¹ Eligible Countries refers to jurisdictions within BII's investment mandate. A full list is included in BII's Investment Policy [here](#)

- b. is committed to the implementation of the international standard of automatic exchange of tax information;
- c. is a member of the Inclusive Framework on BEPS, or is publicly committed to becoming a member thereof or to implementing BEPS minimum standards.

Only in exceptional circumstances may BII use an intermediate jurisdiction that otherwise would not be allowed under this policy and then only if, after consideration by the board of directors of BII Group plc (the “**Board**”), the Board approves such use by making a determination (i) in the case of a new investment, that the use of such jurisdiction is justified by the significant developmental benefits of the investment that cannot realistically be obtained otherwise, or (ii) in the case of an increase in an existing investment that complied, at the time it was made, with BII’s policy on the use of intermediate jurisdictions, that such increase is necessary for the protection of UK taxpayer money.⁴

BII will weigh the costs and benefits of using such a jurisdiction (always with a preference not to use such a jurisdiction) and will consider alternative options to avoid investing through such a jurisdiction including the ability of the investee company to relocate to a different jurisdiction. The Board shall immediately report its decision and the reasons therefor to the FCDO.

Where BII invests in private equity and other funds, it requires its fund managers to structure their investments in a manner that is compliant with the criteria set out above.

5. BII is committed to transparency and aims to provide accurate tax information to all its stakeholders and other interested parties about its activities and investments.

BII considers beneficial ownership during its pre-investment due diligence processes and publicly discloses the following in relation to its investments:

- the overall tax contribution of its investee companies;
- the principal countries in which those companies pay taxes; and
- the legal domiciles of its investee funds and companies.

6. In recognition that this area continues to evolve, FCDO and BII will continue to monitor developments and review this policy at least annually with a view to remaining consistent with evolving international standards⁵ and the best practice of multilateral and bilateral development finance institutions.

² Except in the case of Mauritius, where BII cannot invest as an intermediate jurisdiction if Mauritius is not compliant with paragraph 4(ii)(a).

³ This is BII’s core strategy of investing in countries in Eligible Countries to support the building of businesses and creating jobs.

- 7. BII may request a waiver from a requirement of this Policy in exceptional circumstances. The basis for such waiver will be presented to the Board for consideration and approval. If approved, the Board will immediately notify the FCDO of its decision and the reasons therefor.**

⁴This provision is necessary to avoid, for example, other investors diluting BII's shareholding in a case because it can no longer invest through a jurisdiction.

⁵Including, for example, the EU list of non-cooperative jurisdictions first published on 5 December 2017.

BII UK Tax Strategy

Introduction

BII's income derives from the returns it receives on the capital it invests in businesses in developing countries.

In recognition of its development purpose and majority ownership by the UK Government, BII Group plc (**BII**) is exempted from UK corporation tax but is otherwise subject to UK taxes, including value added and employment taxes.

BII manages its UK tax affairs within this context. Its approach to tax is detailed in this Tax Strategy⁶ which has been approved by its board of directors (**Board**).

BII's approach to tax governance, risk management

Ownership of BII's tax strategy, along with its overall business strategy, sits with the Board and the senior leadership team.

Day-to-day responsibility for the development of BII's tax strategy in light of legislative changes, evolving tax practices and other tax policy matters is delegated to BII's internal tax team. BII's internal tax team works with BII's Risk Management team, overseen by the Risk Committee of the Board, to develop, maintain and improve processes and control frameworks to ensure all tax risks are identified, understood and controlled. This involves keeping abreast of changes in BII's business operating model and developments in tax law, regulations and practice.

BII's Code of Responsible Investment requires us to comply with tax laws and regulations in the countries where we operate.

BII's approach to tax planning and risk appetite

BII's tax affairs are managed in an efficient manner consistent with the fact that BII is exempt from UK corporation tax and is wholly owned by the UK Government.

Where an entity within the broader BII Group is potentially liable to UK tax, we utilise available exemptions and reliefs where relevant and apply them in the manner intended by the UK Government. BII has minimal appetite for tax risk and does not engage in any artificial arrangements to reduce its tax liabilities.

Engagement with tax authorities, including the UK's HMRC

Our engagement with every tax authority, including HMRC, is based on principles of integrity, transparency and fairness with a shared goal of cooperative compliance.

We continually review business processes to ensure that they comply with tax legislation. Where our reviews discover errors, our policy is to disclose them to HMRC with the aim of correcting them so that unsettled tax liabilities are paid and/or overpayments of tax are refunded to us.

⁶As per the obligations set out in paragraph 19(2) and paragraph 20, Schedule 19, Finance Act 2016.



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