Independent Commission for Aid Impact

International Climate Finance: UK aid for low-carbon development

A performance review
Approach paper

June 2018

Contents

1. Purpose, scope and rationale

The UK's International Climate Finance (ICF) is a portfolio of investments to "support international poverty eradication now and in the future by helping developing countries 1) manage risk and build resilience to the impacts of climate change, 2) take up low-carbon development at scale and 3) manage natural resources sustainably".[1]

The purpose of this ICAI review is to assess the contribution of the UK's ICF portfolio to supporting low-carbon development. Low-carbon development refers to efforts to place national economies on a trajectory that both minimises greenhouse gas emissions and brings about economic growth, social inclusion and equity. This might include, for example, choosing renewable energy infrastructure over carbon-intensive alternatives, while at the same time moving towards universal access to energy. Low-carbon development therefore promotes climate change mitigation (by reducing greenhouse gas emissions to limit the global average temperature rise), while also incorporating social and developmental goals.

ICAI last reviewed the UK's climate finance in developing countries in December 2014.[2] That review covered the operations of the UK's first climate finance instrument, the International Climate Fund, from 2011 to 2014,[3] and covered all three of its intended outcomes: climate change **adaptation** (helping developing countries deal with the impact of climate change), **low-carbon development** (minimising future climate change) and **forestry** (sustainable management of forest resources, which supports both adaptation and mitigation). For this review, we have opted to focus on just one of these outcomes – low-carbon development – to allow for a deeper assessment of performance. Adaptation to climate change is excluded, since it was partially covered by the recent ICAI review on resilience to natural disasters.[4] The forestry objective involves a much smaller investment, but may be appropriate for a later ICAI review.

This will be the first independent scrutiny of whether the ICF is helping to promote low-carbon development in developing countries, in accordance with the UK's commitments both to keep global temperature rise well below 2°C above pre-industrial levels and to support the needs of developing countries. With most of the projected growth in greenhouse gas emissions expected to come from rapidly growing and industrialising developing countries, supporting these countries to achieve low-carbon development is critical. This can benefit not only local economies, but also global economic prosperity.[5]

ICAI has decided to conduct a performance review because of the scale and maturity of the UK's international climate investments and the significant continuity in outcomes and partnerships since 2011. Building on ICAI's 2014 review of the International Climate Fund, we will focus specifically on spending in the 2016-17 and 2017-18 periods. The review will consider the relevance of the ICF portfolio and approach, and the effectiveness of the funding and related influence. It will also have a significant focus on learning, reflecting the changes in governance and strategy in the current phase of the ICF.

2. Background

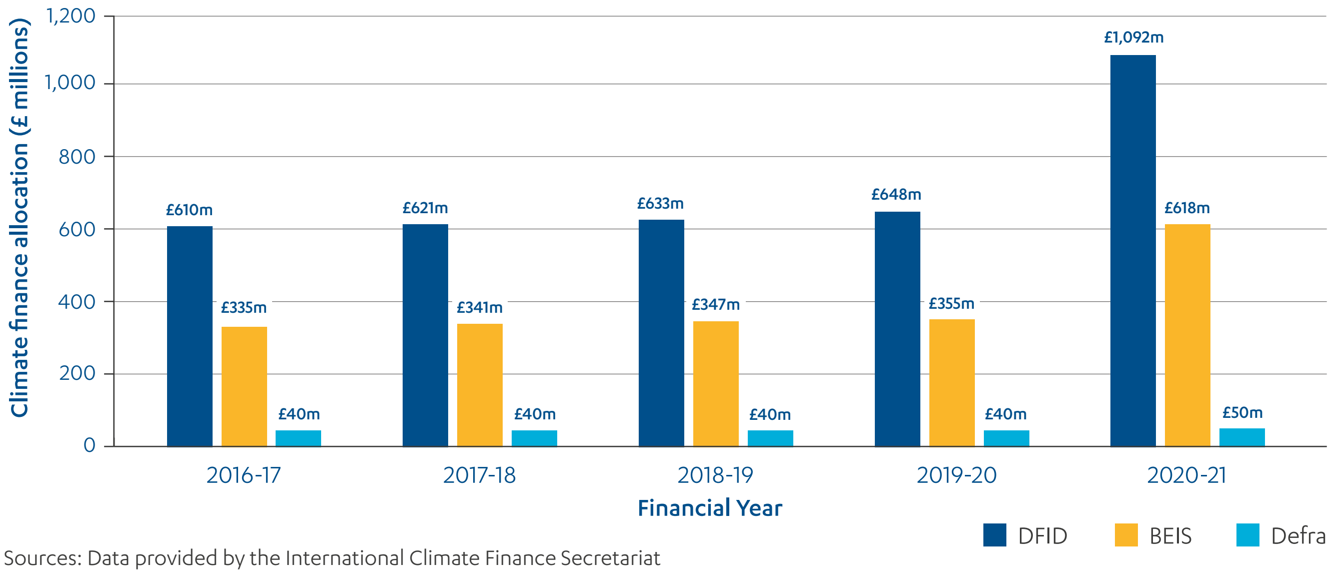
As one of 176 signatories to the Paris Agreement under the UN Framework Convention on Climate Change (UNFCCC),[6] the UK has committed to taking action to stabilise greenhouse gases[7] at a level that will keep global temperature rise well below 2°C above pre-industrial levels (above which the world is expected to experience catastrophic climate change).[8] The UK is also part of a global commitment by industrialised countries to mobilising at least $100 billion per year for climate action in developing countries from public and

1. 2017 UK climate finance results, DFID, 2017, link.
2. The UNFCCC Biennial Assessment and Overview of Climate Finance Flows Report defines climate finance as that which aims at reducing emissions, and enhancing sinks, of greenhouse gases and aims at reducing the vulnerability, and maintaining and increasing the resilience, of human and ecological systems to negative climate change impacts, link.
3. *The UK's International Climate Fund*, ICAI, December 2014, link.
4. *Building Resilience to Natural Disasters*, *A performance review,* ICAI, February 2018, link.
5. *Climate Investment Opportunities in Emerging Markets*, *An IFC Analysis*, International Finance Corporation, 2016, link.
6. *United Nations Framework Convention on Climate Change*, United Nations, link.
7. Gases that contribute to the warming of the earth's atmosphere by absorbing infrared radiation. Carbon dioxide and chlorofluorocarbons are examples of greenhouse gases. This atmospheric warming drives climate change.
8. *Climate Change 2007: Synthesis Report, Contribution of Working Groups I, II and III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, IPCC, 2007, link.

private sources by 2020. Poor people and poor countries are particularly vulnerable to the impacts of climate change, through threats such as water shortages and increased incidence of extreme weather. Without action to mitigate climate change, it has the potential to undermine progress in tackling global poverty.[9]

In 2015 the UK government committed to increasing its climate finance by 50%, to at least £5.8 billion over the five years to 2020-21, including at least £1.7 billion in 2020 (Figure 1).[10] In addition to being the UK's primary instrument for funding international action on climate change, the ICF is also an instrument for influencing others to support global action on climate change.

Figure 1: UK International Climate Finance allocation by department, 2016-17 to 2020-21



Sources: Data provided by the International Climate Finance Secretariat

According to its theory of change, this work is to be delivered through:

- **demonstration -** changing what happens in practice in countries by delivering results which demonstrate that low-carbon, climate-resilient development is feasible and desirable
- **architecture -** improving the international climate architecture and finance system to increase the scale, efficiency and value for money of climate spend
- **innovation -** pioneering innovation to test out new approaches to delivering climate finance that have the potential to achieve bigger and better results in the future.

This review focuses on low-carbon development, which is one of the ICF's three outcomes (see Figure 2). Both Department for International Development (DFID) and Department for Business, Energy and Industrial Strategy (BEIS) programming contributes to this outcome. As DFID has integrated climate change into its broader aid programming, this review will only consider those aspects of DFID programmes that relate to low-carbon development. Similarly, it will only consider the BEIS ICF programming that contributes to low-carbon development.[11] Defra has a small ICF portfolio of eight programmes focused solely on forestry and is therefore outside the scope of this review.

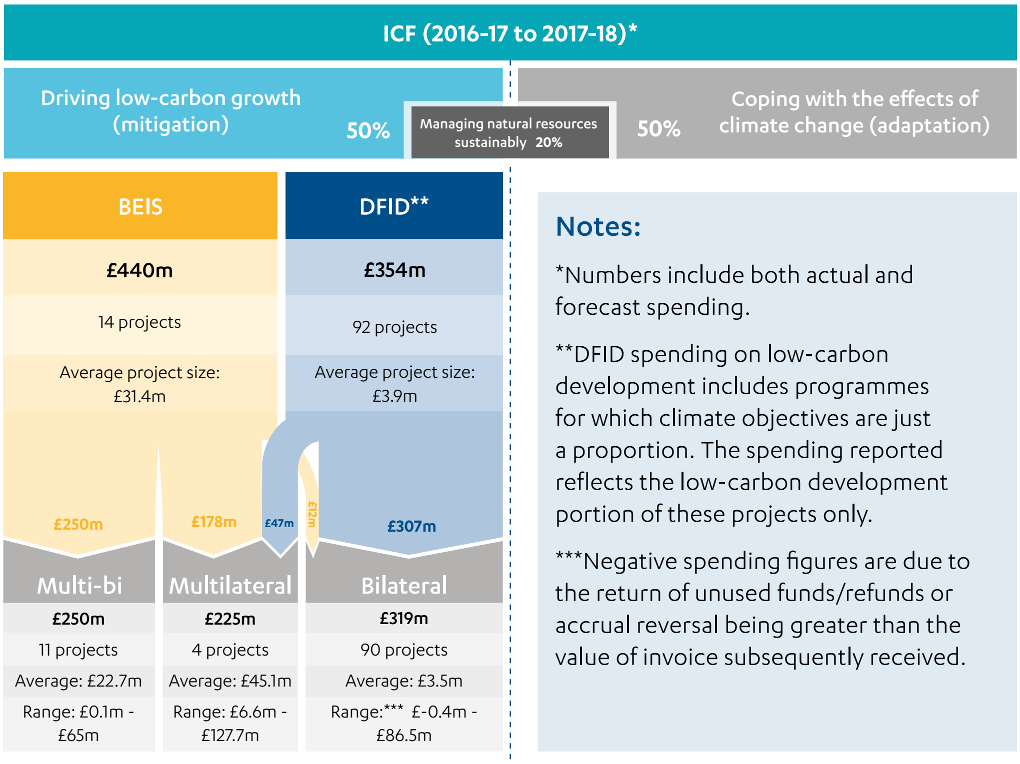
ICF spending on low-carbon development flows through bilateral and multilateral channels. Over its entire second phase (2016-21), the ICF is forecast to spend almost half (48%) of its funding via bilateral routes and the remainder through multilateral institutions, either as part of their core funding or through bilateral programmes managed by them (known as 'multi-bi'). Over the period covered by this review (2016-18), the share that will flow through bilateral channels is lower, at 40% (see Figure 2).

As well as meeting the UK's international climate finance obligations, the ICF also aims to influence the international climate finance architecture (the initiatives and institutions through which finance for climate change action flows to developing countries).[12] It seeks to achieve this both through its funding choices and

9. *Zero poverty, zero emissions. Eradicating extreme poverty in the climate crisis*, ODI, September 2015, link.
10. *Single Departmental Plan - Results Achieved by Sector in 2015-2017: DFID Spend on Climate*, Department for International Development, December, 2017, p. 1, link.
11. BEIS ICF programming also includes forestry programmes which will be outside the scope of this review.
12. See *The Global Climate Finance Architecture*, ODI, November 2017, link, for a more detailed understanding.

by influencing the strategies, plans and approaches of international funds, multilateral development banks and other multilateral actors, as well as through engaging with the broader political and private sector climate and development spheres.

Figure 2: The ICF portfolio (spending covering the review period 2016-17 to 2017-18)



3. Review questions

The review will examine how well the UK is using its funding and influence to support low-carbon development, using the evaluation criteria of relevance, effectiveness and learning.[13] The review questions are informed by the ICF's theory of change which focuses on the UK's contribution to innovation, demonstration and improving the climate finance architecture. The questions and sub-questions are set out in Table 1.

Table 1: Our review questions

Review criteria and questions	Sub-questions
1. **Relevance:** Does the ICF's approach to low-carbon development reflect the needs of developing countries and the UK's international commitments to climate finance?	• How credible and coherent is the ICF's approach to helping developing countries adopt low-carbon development? • How credible and coherent is the ICF's approach to strengthening the international climate finance architecture to support low-carbon development?
2. **Effectiveness:** How effective is the ICF at promoting low-carbon development?	• How effective is the ICF in its efforts to demonstrate that low-carbon development is feasible and desirable? • How effective is the ICF in its efforts to improve the international climate finance architecture?
3. **Learning:** How well do UK investments in low-carbon development promote and reflect learning and evidence?	• How well has the UK contributed to generating and sharing research and evidence on low-carbon development? • How adaptive and/or innovative is the ICF in response to results and learning?

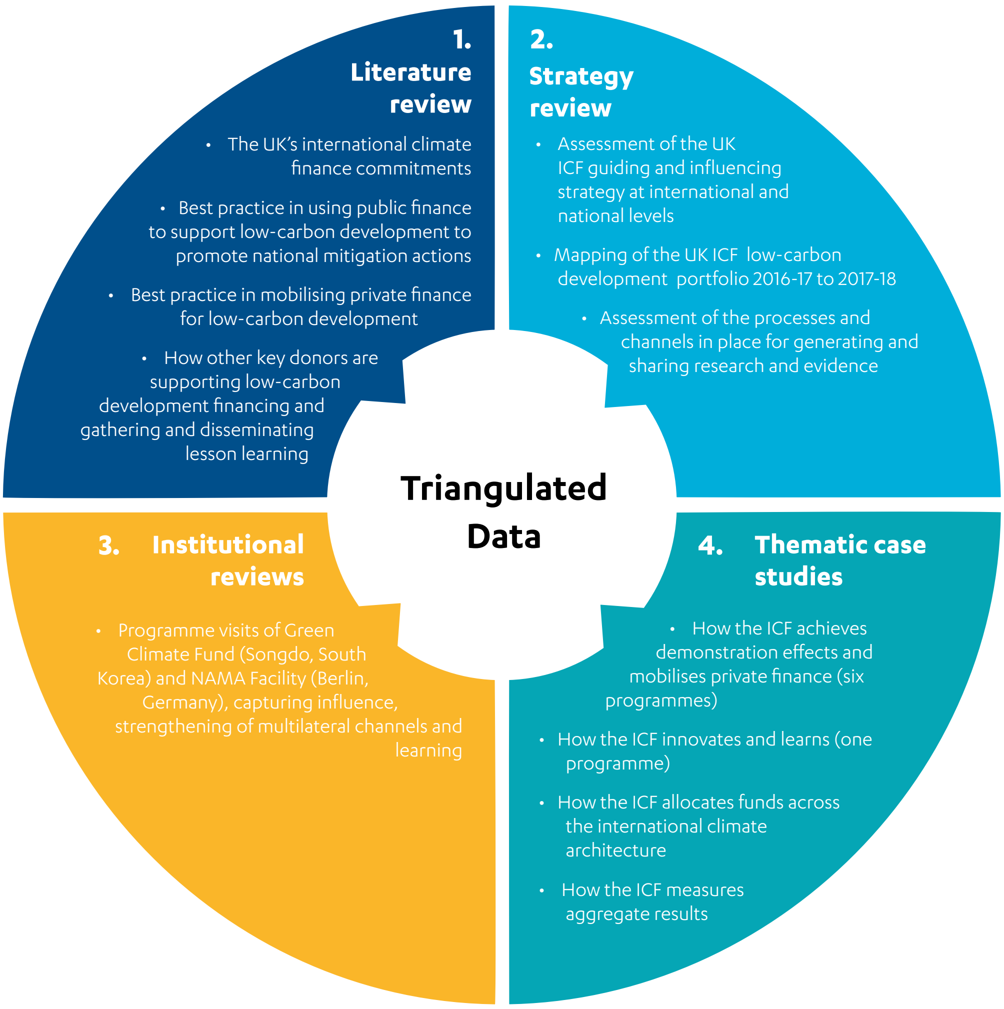
13. Based on the OECD Development Assistance Committee (DAC) evaluation criteria: *Principles for Evaluation of Development Assistance*, OECD DAC, 1991, link.

4. Methodology

The review methodology reflects the ICF's use of multiple delivery channels and its global scope. It consists of four components that build on each other to address the review questions: strategy review, literature review, institutional review and thematic case studies (Figure 3).

The methodological elements are designed to generate triangulated evidence to address the review questions. They will include key informant interviews with BEIS and DFID, as well as implementing partners, the private sector and civil society, supplemented by stakeholder surveys (such as of delivery partners) if required. The review will also be informed by relevant findings from other ICAI reviews, in particular the December 2014 International Climate Fund review.[14]

Figure 3: Methodological elements of the performance review of the UK's ICF



Component 1 – Literature review: The literature review will draw out best practice in climate finance provision to low-carbon development. It will also present the scale and significance of the ICF in the context of global commitments to climate finance and action.

Component 2 – Strategic review: This component will review the relevance of the approach to the ICF's stated outcomes for low-carbon development and its analysis of the risks and challenges. Through desk reviews of its key policies, strategies, guidance and consultations with key stakeholders, we will explore the influence of the ICF on multilateral climate funds and other international climate finance actors. We will further analyse how well the ICF is learning from its activities and adapting its overall approach and programming in response.

14. *The UK's International Climate Fund*, ICAI, December 2014, link.

Component 3 – Institutional reviews: We will assess how effective the UK is at shaping and influencing key institutions in the climate change architecture through two institutional reviews: the Green Climate Fund (GCF) and the Nationally Appropriate Mitigation Actions (NAMA) Facility. The reviews will explore the desired outcomes of the UK's financial support for these two institutions and how these are reflected in the terms and conditions of the funding. We will also examine how the UK uses its influence as a funder – including its participation in programme boards – to shape the operations of each institution. The reviews will include interviews with officials and other key informants through visits to their institutional headquarters in Songdo and Berlin, as well as reviews of relevant documents.

Component 4 – Thematic case studies: We will explore particular aspects of the ICF's work in detail through thematic case studies, selected to cover key issues of importance for answering our review questions. The four thematic areas are set out in the next section, on sampling. The thematic case studies will involve reviews of relevant documents, key stakeholder interviews and desk reviews of a sample of ICF-funded programmes.

5. Sampling approach

To ensure our review covers core funding to multilaterals, along with bilateral and multi-bi spending, we propose to sample the portfolio through two institutional reviews, and through thematic case studies of the ICF portfolio. These have been selected so that we can examine different funding channels being used by the ICF to achieve its desired outcomes and explore different aspects of our review questions.

The selection of the institutional reviews and thematic case studies was based on three main criteria:

- the size of associated programme spending
- their strategic significance to the ICF
- their value in answering our review questions on relevance, effectiveness and learning.

Institutions selected for review

1. The **Green Climate Fund** is the newest fund under the UNFCCC Financial Mechanism and the largest dedicated multilateral climate fund in existence. The UK has made a substantial financial commitment to spend £158 million on low-carbon development in the period covered by this review,[15] which is the largest share of the UK's international climate finance commitments for low-carbon development.
2. **The NAMA Facility** supports actions that developing countries have committed to take towards climate change mitigation and low-carbon development. The NAMA Facility has been selected due to the scale of its funding commitments – £65 million spent and to be spent in this review period – and its focus on supporting transformational projects, with a strong learning element.

Together, these are the two largest ICF multilateral programmes supporting low-carbon development, with a combined £223 million UK contribution, representing 47% of the multilateral and multi-bi low-carbon development programming in the review period. They are also strategically important, and therefore likely to be a particular focus of the UK's influencing work on the climate finance architecture.

Thematic areas selected for case studies

1. **How the ICF allocates funds across the international climate finance architecture –** the balance of effort and choices made between channels of spending is strategically important and influences the potential impact of spending. Rather than examining any particular programme, this case study will explore the rationale behind the UK's allocation of funds across multilateral, multi-bi and bilateral channels.
2. **How the ICF measures portfolio-level results –** a number of the key performance indicators of the ICF are relevant to low-carbon development and are reported on annually by the ICF's knowledge platform. We will assess their suitability as measures of results across the ICF portfolio and their relevance to the three outcomes in its theory of change: demonstration, innovation and architecture.

15. The contribution of the ICF to the GCF shown here represents 50% of both BEIS and DFID's total contribution to the GCF. This is because the GCF targets both adaptation and mitigation activities, intending to achieve a 50:50 split in funding for these objectives.

3. **How the ICF achieves demonstration effects and mobilises private finance –** the mobilisation of private finance for climate change actions is a key global objective given the urgency and scale of the climate challenge. Increasing private climate finance flows requires efficient and effective learning from existing efforts to mobilise and scale up private finance. The case study will focus on six programmes with private finance objectives: UK Climate Investments, Renewable Energy Performance Platform, Global Innovation Lab/Capital Markets Climate Initiative, Global Climate Partnership Fund, Climate Public Private Partnership Programme and the Sustainable Infrastructure Programme. It will also take account of other projects with private finance objectives.
4. **How the ICF innovates and learns –** innovation is one of the key outputs of the ICF approach in its theory of change. The objective is to "pioneer innovation to test out new approaches to delivering climate finance that have the potential to achieve bigger and better results in the future". The case study will look in particular at the Sustainable Infrastructure Programme in Latin America, which is a relatively new project with a significant budget. It will also consider innovation in other programmes and across the portfolio as a whole. The case study will assess whether the ICF's work is built on learning from past programmes, its contribution to promoting innovation and filling evidence gaps, and whether the ICF has a strategic approach to using the results of piloting and demonstration projects to inform its future work.

6. Limitations to the methodology

Our primary methodological challenge is the attribution of outputs solely to the UK's ICF. The challenge of attributing outputs to particular countries and/or institutions is pervasive in the field of climate finance. The challenge of responding to climate change in developing countries requires a rapid scaling up of many sources and types of finance. Given the resultant diverse nature of climate finance flowing to developing countries, including through multiple donors and both multilateral and bilateral channels, we propose to answer our review questions at the ICF portfolio level. We will assess documented progress against intended outputs of the ICF and explore whether other factors could also have influenced those key outputs and, where relevant, indicators. We will further seek to assess the credibility of ICF-claimed portfolio-level contributions to low-carbon development.

The allocation and provision of international climate finance is informed by political considerations and influencing objectives. As such, decisions go beyond more technical considerations, such as the most effective ways to generate emission reductions, or the best technologies or financial instruments to de-risk investments. Additional considerations may take into account conditionality of national climate change action on international financial support or the need to support international climate change processes under the UNFCCC. The review will therefore acknowledge, wherever relevant, the more political and influencing roles performed by the ICF and its portfolio as a whole, in addition to identifying where spending decisions are driven by technical considerations.

7. Risk management

Risk	Mitigation and management actions
The UK's relationship with international or multinational organisations may be affected by this review	The review will respect the international processes in which the ICF operates, including the complexity of influencing climate architecture and the risks of attributing advocacy results to any one country. Interviews and (where needed) surveys will not be attributable to individuals or their institutions in the published report. Questions will be carefully tailored and the selection of stakeholder interviewees carefully made to ensure that the review respects the international influencing context and maintains a focus on the ICF's performance in those areas within ICAI's remit.
Stakeholder presence during July institutional visits is less than expected	The timing of institutional visits has been scheduled to coincide with two key events in Songdo, where a wide range of key stakeholders are expected to be gathered, facilitating efficient evidence gathering. As much advance notice as possible will be given for institutional visits. Where key stakeholders will be absent during these visits, interviews will be conducted remotely before and after the visits.

8. Quality assurance

The review will be carried out under the guidance of ICAI commissioner Richard Gledhill, with support from the ICAI secretariat. The review will be subject to quality assurance by the service provider consortium.

Both the methodology and the final report will be peer-reviewed by Dr Alina Averchenkova of the Grantham Research Institute at the London School of Economics.

9. Timing and deliverables

The review will be completed within 11 months, starting from March 2018.

Phase	Timing and deliverables
Inception	Approach paper: June 2018
Data collection	Country visits (institutional reviews): June and July 2018 Evidence pack: August 2018 Emerging findings presentation: September 2018
Reporting	Final report: early 2019

This document can be downloaded from www.icai.independent.gov.uk

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