

International Climate Finance: UK aid for low-carbon development

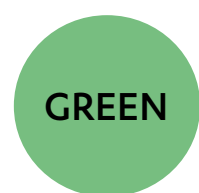
A performance review

February 2019

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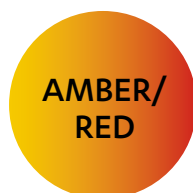
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Overall review scores and what they mean



GREEN

Strong achievement across the board. Stands out as an area of good practice where UK aid is making a significant positive contribution.



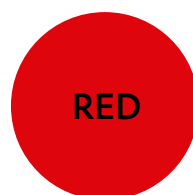
**AMBER/
RED**

Unsatisfactory achievement in most areas, with some positive elements. An area where improvements are required for UK aid to make a positive contribution.



**GREEN/
AMBER**

Satisfactory achievement in most areas, but partial achievement in others. An area where UK aid is making a positive contribution, but could do more.



RED

Poor achievement across most areas, with urgent remedial action required in some. An area where UK aid is failing to make a positive contribution.



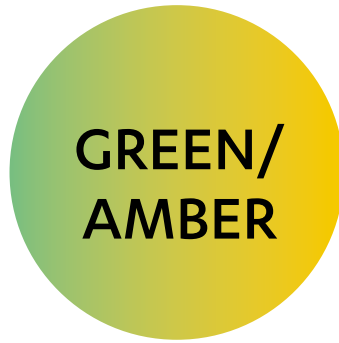
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UK International Climate Finance shows a convincing approach to promoting low-carbon development, with some good emerging results on influencing other financial flows and a significant investment in results management and learning. However, there is a need to update the overarching strategy, with greater clarity on low-income countries, and for a stronger public narrative to support demonstration and influencing.

The UK has made a strong commitment to joint international action on climate change. Over half of its £5.8 billion budget for climate finance is expected to be spent through core contributions to multilateral international climate finance and other multilateral channels between 2016-17 and 2020-21. It makes strategic choices about which international funds and initiatives to support, helping to build a more coherent international climate finance architecture and to increase its influence over investment choices. Its support is aligned with developing country priorities. BEIS focuses its investments on countries with rapidly growing emissions, which tend to be middle-income countries. DFID has a convincing approach to supporting low-carbon development in the energy sector. However, it lacks a clear strategy for promoting low-carbon development in other sectors. DFID is progressively integrating low-carbon investment across its portfolio but has not approached the integration process in a systematic way, which may lead to a loss of focus and momentum. The overall strategy for UK International Climate Finance has not been updated since 2011, leaving key elements of the approach unclear and potentially opening up a strategic gap around support for low-income countries.

The UK has used its influence with multilateral climate funds well, backing its financial support with quality technical inputs. It has helped improve the quality of their work in a number of areas, including project quality, engagement with the private sector and building organisational capacity. In our sample of nine BEIS and DFID programmes, we saw a good range of results around capacity building, demonstration of new technologies and business models, and in mobilising private investment. There is emerging evidence that this is contributing to transformational change in partner countries. However, a falling away in visibility and external communications around UK International Climate Finance may be inhibiting the achievement of its demonstration and influencing objectives.

UK International Climate Finance has been a strong champion of a greater results focus in multilateral climate funds and has invested in a range of learning initiatives. It has developed a set of key performance indicators, enabling it to track aggregate results in a number of areas. The data from key performance indicators does not appear to be informing portfolio management and while there are learning components within many individual programmes, there has been no systematic process for capturing and sharing lessons across the portfolio. However, a central monitoring, evaluation and learning contract is now undertaking some portfolio-level thematic evaluations that are expected to inform future programming.

Individual question scores

Question 1

Relevance: Does the UK's approach to low-carbon development reflect the needs of developing countries and its international commitments to climate finance?

GREEN/
AMBER

Question 2

Effectiveness: How effective is UK International Climate Finance at promoting investment in low-carbon development?

GREEN/
AMBER

Question 3

Learning: How well do UK investments in low-carbon development promote and reflect learning and evidence?

GREEN/
AMBER

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Executive Summary

Under the UN Framework Convention on Climate Change (UNFCCC), 184 signatory countries agreed to take urgent action to keep the global temperature rise well below 2°C above pre-industrial levels (the level above which catastrophic and potentially irreversible harm is predicted) and to pursue efforts to limit the increase to 1.5°C. As well as cutting their own carbon emissions, developed countries jointly committed to mobilising at least \$100 billion per year from public and private sources by 2020 to help developing countries adapt to climate change and minimise their future emissions.

The UK is a major supporter of global action on climate change, having committed at least £5.8 billion in UK aid over the five-year period to 2021. The UK aims for an even split between mitigation (working to reduce emissions) and adaptation (helping developing countries adapt to the impact of climate change). The UK is also investing in projects to halt deforestation, which support both mitigation of and adaptation to climate change. These resources come from the budgets of the Department for International Development (DFID), the Department of Business, Energy and Industrial Strategy (BEIS) and the Department for Environment, Food and Rural Affairs (Defra), and are known collectively as UK International Climate Finance.

In this review, we assess the contribution of UK International Climate Finance since 2016 to promoting low-carbon development (mitigation) in developing countries – that is, helping them shift to patterns of development that minimise future emissions while still achieving their development goals. Helping to shift countries to patterns of low-carbon development cannot be funded from development aid alone. It calls for public and private investment on a vast scale and in many areas, from transitioning energy systems to the greening of rapidly growing cities. Our focus is therefore on how well the UK has contributed to mobilising other climate finance and scaling up private investment.

This performance review explores the coherence of the UK's overall approach to low-carbon development, how successful it has been at influencing other contributors and whether it is learning and adapting. The review involved case studies of many aspects of the portfolio, with visits to the headquarters of two of the major UK-supported multi-donor initiatives. We did not, however, examine individual programmes overseas.

Relevance of the UK approach to low-carbon development

The UK has made a strong commitment to joint international action on climate change, directing two thirds of its climate finance through core contributions to multilateral international climate finance and other multilateral channels between 2016-17 and 2017-18. The scale of the investment adds weight to the UK's advocacy for more climate funding from other OECD countries. It also enables the UK to influence how others' climate finance is spent.

We find that the UK has made strategic choices about which multilateral initiatives to support, helping to build a more coherent climate finance architecture. It is now the third-largest contributor to the Green Climate Fund,¹ which it regards as a key mechanism for funding implementation of the UNFCCC in developing countries. It also supports a range of other funds and initiatives, each with a distinct contribution to the rapidly evolving field of international climate action.

UK International Climate Finance shows awareness of the importance of promoting partner country leadership and ownership of climate action. In its contributions, the UK has prioritised several multilateral climate funds and multi-donor initiatives that support nationally led plans and priorities. There are well-designed processes to ensure that investments match national priorities. As many developing countries are still at an early stage in identifying their preferred approach to low-carbon development, the UK also provides technical assistance to help put in place national policies and strategies and to identify priority investments.

BEIS has chosen to focus its investments on countries with rapidly growing emissions, which tend to be middle-income countries. There is a clear rationale for this: middle-income countries contribute much more to global emissions than low-income countries, and emissions have an equal impact on the global poor, wherever produced. BEIS recognises, however, that middle-income countries have a greater capacity

1. The UK is the third-largest contributor to the Green Climate Fund based on country pledges received during the initial resource mobilisation. If the US does not meet its \$3 billion funding pledge, of which only \$1 billion has been paid in so far, the UK would become the second-largest contributor to the Green Climate Fund, [link](#).

to finance the transition to low-carbon development than lower-income countries. Where BEIS funding is used by development partners in middle-income countries, this is mainly for concessional loans for project implementation. Grant support in these countries is largely limited to technical assistance. BEIS has a convincing strategy for working in countries or sectors at different levels of market maturity. Where markets are underdeveloped, the focus is on building capacity and trialling new technologies and business models. In more mature markets, the priority is to create the conditions for scaling up private investment – for example by helping to meet the costs of project design and using UK finance to reduce risks for private investors. Through its funding, BEIS also aims to create secondary benefits for UK firms.

DFID has a credible strategy for its investments in the energy sector, which accounts for the majority of its aid spending on low-carbon development. An energy policy framework from 2015 has ‘enhancing environmental sustainability’ as one of its objectives, including by helping developing countries with limited existing energy infrastructure ‘leapfrog’ to clean energy, reduce fossil fuel subsidies, promote off-grid energy solutions and invest in energy-efficient cities and buildings. To this end, it works with partner countries on policy, planning and regulatory reform and invests in the testing and scaling up of innovative technologies and business models. DFID has not developed strategies or guidance on low-carbon development in other sectors.

Since 2014, DFID has progressively shifted from large, dedicated climate programmes to integrating climate action across its portfolio. There is a good case for this: low-carbon development is a principle that cuts across all development assistance. However, we find that DFID has not approached the integration process in a convincing way. There is no explicit requirement for new programme designs to incorporate low-carbon development objectives and there is a lack of leadership, guidance and central support. This creates a real risk that DFID’s low-carbon development work will become fragmented and lose momentum. However, DFID does better than most donors at accounting for its climate expenditure, which is tracked through its management information system.

There is no up-to-date strategy for UK International Climate Finance as a whole. A strategy from 2011 has not been updated and its current status is unclear. There is only an unpublished ‘new narrative’ established in 2017 that articulates at a high level what UK International Climate Finance is seeking to achieve within a broader context of international climate finance commitments. Key aspects of the UK approach – including its sectoral and geographical priorities and the link between low-carbon development and poverty reduction – have not been articulated. This risks undermining the strategic coherence of the UK’s funding. In particular, the approach to low-carbon development in low-income countries, in support of the UK position in international climate negotiations, is not clear.

Overall, there are strong elements to the UK approach to low-carbon development, meriting a **green-amber** score. While BEIS has a clear strategy for promoting low-carbon development in countries with large or rapidly growing emissions and DFID has a clear strategy for the energy sector, DFID’s approach to integrating low-carbon development across its portfolio more generally is unconvincing. Care needs to be taken to ensure the portfolio remains coherent and aligned with the UK’s strategic objectives.

Effectiveness in promoting wider investment in low-carbon development

The UK has used its position as a major donor to multilateral climate funds and multi-donor initiatives to influence their investment criteria and management processes. It regularly reviews the performance of its investments, which informs its positions on governing boards and investment committees. Key stakeholders were in agreement that it backs its financial support with good quality technical inputs. Across our case studies, we saw examples of successful influence in a range of areas, including raising project quality, strengthening results orientation, improving engagement with the private sector and strengthening institutional capacity.

We reviewed a sample of nine BEIS and DFID programmes with objectives around supporting the mobilisation of private finance. We found a good range of achievements in the following areas:

- Capacity building, including helping partner countries to introduce policies and regulations that support low-carbon investment and building the capacity of local financial institutions to identify and make successful investments. For example, the UK worked with the Energy Regulatory Authority

in Uganda to enable investors in small-scale renewable energy to sell power back into the grid at tariffs designed to encourage new investment.

- Demonstrating the technical and commercial viability of new technologies and business models, to encourage replication by others. For example, UK investment supported an innovative pay-as-you-go scheme for off-grid power in rural Nigeria.
- Mobilising private investment, including by providing capital to local financial institutions in many countries to invest in low-carbon initiatives and encouraging other international investors to do likewise.

Over the past seven years, UK International Climate Finance has helped to mobilise £3.3 billion in new public investments and a further £910 million in private finance.² There is emerging evidence that UK investments are contributing to transformational change – particularly by building the willingness and capacity of financial markets to take on low-carbon investments.

We are concerned, however, by feedback from a range of stakeholders that there has been a falling away in the frequency and quality of external communications around UK International Climate Finance. The UK is not providing a clear and developed public narrative on the ambition or the benefits of UK International Climate Finance. This is hindering broader stakeholder engagement (for example with the City of London) and public accountability, and may also undermine the UK's influencing and demonstration objectives.

We award UK International Climate Finance a **green-amber** score for effectiveness in promoting low-carbon development. The UK is delivering a good pattern of results on influencing international climate finance and supporting the mobilisation of private investment for low-carbon development. Lack of a clear public narrative for International Climate Finance, however, may hinder broader engagement and uptake that could further its effectiveness.

Learning across UK International Climate Finance

The UK has been a consistent champion of results measurement in international climate finance, encouraging its multilateral partners to develop results frameworks and strengthen their monitoring and evaluation processes. It has used its position on governing boards to ensure that investments have a strong results focus and it has contributed to a range of joint learning initiatives on the effective use of climate finance. Key stakeholders told us that the UK is seen as a thought leader on the challenging area of defining and measuring transformational change, where it has supported learning partnerships between multilateral climate change funds and other actors with a view to deriving the best impact from limited public climate finance.

All UK International Climate Finance programmes report annually, as appropriate, against a set of shared key performance indicators (KPIs). This enables the production of aggregate results in a number of areas, such as the volume of emissions that have been reduced or avoided and the level of other finance mobilised. However the KPIs capture only a subset of the portfolio's overall achievement. The emphasis so far has been on establishing a credible reporting mechanism. We found little evidence that the data has been used for portfolio management and learning.

All programmes include learning and evidence-collection components in their annual and project completion reviews. Our review found that some learning takes place across programmes, but annual reviews are mostly focused on KPIs and reporting against the logframe. There is no systematic process for capturing lessons from individual programmes and disseminating them across the portfolio.

UK International Climate Finance has invested in a central monitoring, evaluation and learning contract, known as Compass. The contract was paused and re-scoped in 2017 and now includes portfolio-level evaluations that are expected to make a good contribution to learning. However, the re-scoping process has resulted in significant delays, with the result that most of the learning will only become available in the final year of the four-year contract.

2. 2018 UK Climate Finance Results, ICF, 2018, [link](#).

We award a **green-amber** score for learning. This is in recognition of the substantial investment in results measurement and knowledge generation, and the UK's influencing of multilateral partners to strengthen results measurement. There are, however, important issues still to be resolved around how learning is used to inform portfolio and programme management.

Recommendations

We offer the following recommendations to support the continuing development of UK International Climate Finance.

Recommendation 1

UK International Climate Finance should refresh its strategy, including a clear approach to promoting low-carbon development and to integrating low-carbon development principles across the UK aid programme.

Recommendation 2

DFID should adopt a more structured and deliberate approach to integrating low-carbon development across its programming.

Recommendation 3

UK International Climate Finance should present a clear public narrative about the ambition and value of the UK's climate investment to support its demonstration and influencing objectives, as well as to improve visibility and public accountability.

1 Introduction

- 1.1 The challenge posed by climate change is urgent. Since the 1950s, there have been unprecedented changes in the global climate. Concentrations of greenhouse gases have increased,³ the atmosphere and oceans have warmed, the volume of snow and ice has diminished and sea levels have risen. Each of the last three decades has been warmer than any since 1850. A 2018 report by the Intergovernmental Panel on Climate Change warned that we are rapidly approaching the point where climate change will present a serious and potentially irreversible threat to human societies and the planet.⁴
- 1.2 As one of 184 signatories to the Paris Agreement under the UN Framework Convention on Climate Change (UNFCCC), the UK has committed to taking action to stabilise greenhouse gases at a level that will keep global temperature rise well below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C.⁵
- 1.3 Keeping global warming below that threshold will require rapid, far-reaching and unprecedented changes in all countries. It will require deep cuts in greenhouse gas emissions from all sectors, including through new technologies and business practices, and behavioural changes across society. Most of the projected growth in greenhouse gas emissions is expected to come from rapidly industrialising developing countries such as China and India. Minimising future emissions in developing countries is therefore central to tackling the global climate challenge.
- 1.4 Under the UNFCCC, developed countries have committed to mobilising at least \$100 billion per year for climate action in developing countries from public and private sources by 2020. This is to help developing countries to adapt to the impact of climate change – such as changing rainfall patterns and the increasing incidence of severe weather – and to support mitigation action, to reduce their own emissions.
- 1.5 The UK has committed to providing at least £5.8 billion from the aid budget in climate finance⁶ for developing countries between 2016-17 and 2020-21 (see Figure 2).⁷ The UK supports both adaptation (to deal with the impact of climate change) and mitigation (to reduce the sources or enhance the sinks of greenhouse gases) in roughly equal proportion. Projects that reduce deforestation contribute towards both mitigation and adaptation: the UK, Germany and Norway have together committed \$5 billion to forestry projects. The funds to support climate action in developing countries come from the budgets of the Department for International Development (DFID), the Department of Business, Energy and Industrial Strategy (BEIS) and the Department for Environment, Food and Rural Affairs (Defra). The portfolio of expenditure is known collectively as UK International Climate Finance.
- 1.6 This review assesses the contribution of UK International Climate Finance to promoting low-carbon development in developing countries. This part of the portfolio supports developing countries to shift to a development pathway that minimises emissions while still meeting their developmental goals. In helping to mitigate the future impacts of climate change on the world's poor, low-carbon development is also central to supporting and maintaining reductions in global poverty⁸ and achieving the Sustainable Development Goals (see Box 1).
- 1.7 The cost of shifting to low-carbon development across the developing world is far greater than could ever be met through official development assistance alone. UK International Climate Finance is therefore intended to be catalytic in effect, unlocking other sources of finance – especially from the private sector – by demonstrating that low-carbon development solutions are both technically and economically viable.

3. A gas that contributes to the warming of the earth's atmosphere by absorbing infrared radiation. Carbon dioxide and chlorofluorocarbons are examples of greenhouse gases. It is this atmospheric warming that drives climate change.

4. *Global Warming of 1.5°C*, IPCC, October 2018, [link](#).

5. *Paris Agreement*, United Nations, 2015, [link](#).

6. 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 vulnerability, and maintaining and increasing the resilience, of human and ecological systems to negative climate change impacts, [link](#).

7. *Single Departmental Plan - Results Achieved by Sector in 2015-2017: DFID Spend on Climate*, Department for International Development, December, 2017, p. 1, [link](#).

8. Watson, C. et al., *Zero poverty, zero emissions. Eradicating extreme poverty in the climate crisis*, 2015, [link](#).

Box 1: Low-carbon development and the Sustainable Development Goals⁹

The Sustainable Development Goals (SDGs), also known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure all people enjoy prosperity and peace. Goal 13 specifically addresses climate change:



Goal 13: Take urgent action to combat climate change and its impacts – including building resilience and capacity to adapt, integrating climate change measures into national development strategies and promoting global mechanisms for climate action under the UNFCCC.

Climate change action and low-carbon development are also embedded in other goals:



Goal 7: Affordable and Clean Energy – More use of renewables in the pursuit of universal energy access.



Goal 9: Industry, Innovation and Infrastructure – A sustainable approach to global infrastructure development, including avoiding infrastructure investments that lock countries into high-emission pathways.



Goal 11: Sustainable Cities and Communities – Ensuring climate change mitigation and adaptation in urban development.



Goal 14: Life Below Water – Conserving and making sustainable use of the oceans, including preventing ocean acidification by reducing greenhouse gases.



Goal 15: Life on Land – Sustainable management of forests, which is key to global plans to reduce emissions.

The growing impact of climate change threatens to impede our ability to achieve – or even to cause a reversal of progress on – other SDGs, including on poverty, hunger, health, clean water and responsible consumption and production.

1.8 The last time ICAI undertook a review of UK climate finance for developing countries was in 2014.¹⁰ At that time, UK aid for climate action was channelled through a cross-government fund, the UK's International Climate Fund. The review covered all three founding objectives of this fund: climate change adaptation (helping developing countries deal with the impact of climate change), low-carbon development (mitigation of future climate change) and forestry (sustainable management of forest resources).¹¹ In this review, we have decided to focus on low-carbon development, excluding forestry, to allow for a deeper exploration of the UK's contribution to mobilising the global finance needed to help developing countries achieve a low-emission development trajectory.

9. Sustainable Development Goals, UN website, [link](#).

10. *The UK's International Climate Fund*, ICAI, December 2014, [link](#).

11. *UK ICF Tackling climate change, reducing poverty*, ICF, 2011, [link](#).

- 1.9 Excluding forestry, just under £800 million has been spent on low-carbon development from 2016-17 to 2017-18, shared between BEIS (approximately 55%) and DFID (45%). The funds are used for bilateral climate projects and contributions to multilateral climate funds and international initiatives (see Figure 4).
- 1.10 Given the scale and maturity of the UK's international climate investments, we opted to conduct a performance review (see Box 2). We cover the period from 2016-17, the start of the current phase of UK International Climate Finance, to 2017-18. We assess whether the portfolio demonstrates a convincing approach to promoting low-carbon development, and whether the responsible departments are effective in their efforts to mobilise and improve climate spending by other contributors, including the private sector. Our review questions are set out in Table 1.

Table 1: Our review questions

Review criteria and questions	Sub-questions
<p>1. Relevance: Does the UK's approach to low-carbon development reflect the needs of developing countries and its international commitments to climate finance?</p>	<ul style="list-style-type: none"> • How credible and coherent is the UK's approach to helping developing countries adopt low-carbon development? • How credible and coherent is the UK's approach to strengthening the international climate finance architecture to support low-carbon development?
<p>2. Effectiveness: How effective is UK International Climate Finance at promoting investment in low-carbon development?</p>	<ul style="list-style-type: none"> • How effective is UK International Climate Finance in its efforts to demonstrate that low-carbon development is feasible and desirable? • How effective is the UK in its efforts to improve the international climate finance architecture?
<p>3. Learning: How well do UK investments in low-carbon development promote and reflect learning and evidence?</p>	<ul style="list-style-type: none"> • How well has the UK contributed to generating and sharing research and evidence on low-carbon development? • How adaptive and/or innovative is UK International Climate Finance in response to results and learning?

Box 2: What is an ICAI performance review?

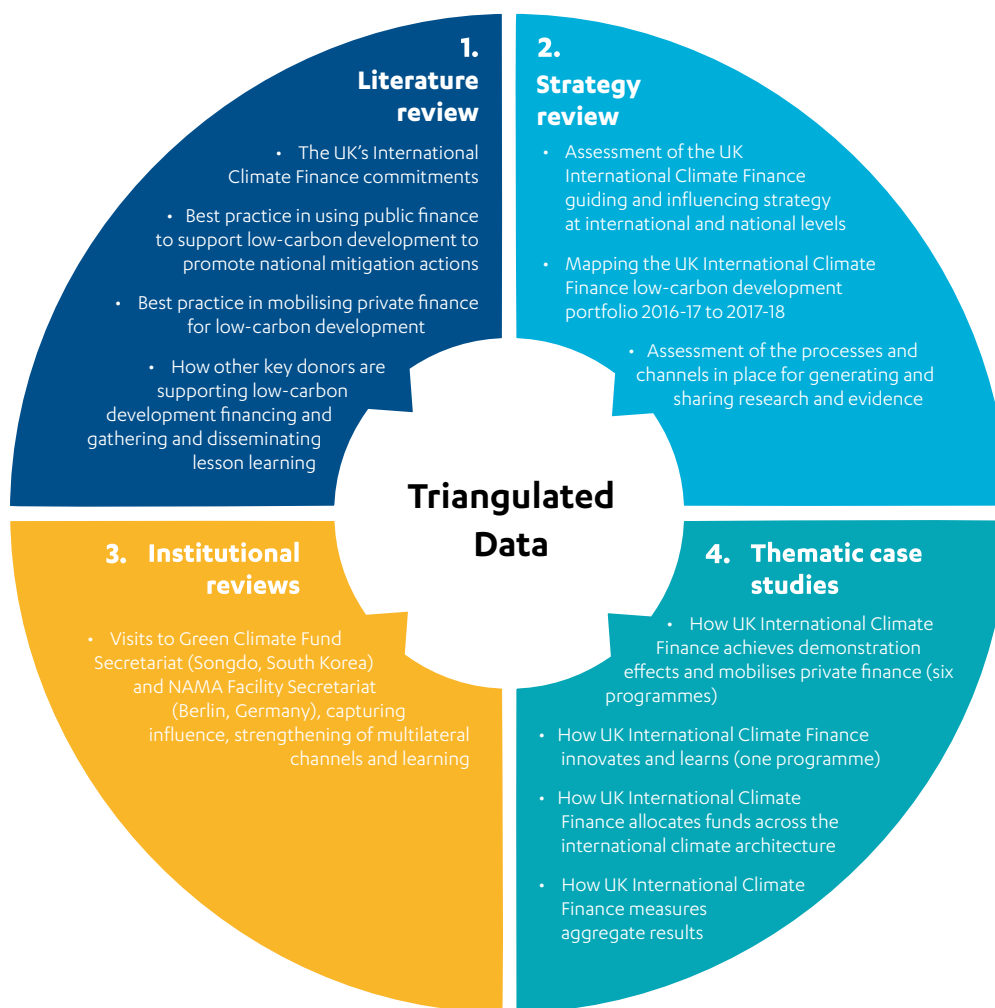
ICAI **performance reviews** take a rigorous look at the efficiency and effectiveness of UK aid delivery, with a strong focus on accountability. They also examine core business processes and explore whether systems, capacities and practices are robust enough to deliver effective assistance with good value for money.

Other types of ICAI reviews include **impact reviews**, which examine results claims made for UK aid to assess their credibility and their significance for the intended beneficiaries, **learning reviews**, which explore how knowledge is generated on new or recent challenges for the UK aid programme and translated into credible programming, and **rapid reviews**, which are short, real-time reviews examining an emerging issue or area of UK aid spending.

2 Methodology

- 2.1 Our methodology was designed to assess how well the portfolio and related influencing activities by the UK government are unlocking climate finance flows for low-carbon development. We therefore focused on the UK's interactions with the international climate finance architecture and on its use of programmes to support the mobilisation of other financial flows. We did not carry out any field assessments of the implementation of individual low-carbon development projects.
- 2.2 Our methodology included four components (see Figure 1, see also Box 3 for limitations):
- **Literature review:** We reviewed the academic and 'grey' literature to identify emerging good practices in the provision of climate finance for low-carbon development and to collect views on how to strengthen the international climate finance architecture.
 - **Strategy review:** We reviewed the policies, strategies and guidance that govern UK International Climate Finance and conducted interviews with key stakeholders, both inside the UK government and externally, to explore whether the UK has a credible approach to promoting low-carbon development.
 - **Institutional reviews:** To assess how well the UK uses its climate finance and related influence to shape the international climate architecture, we prepared case studies of its relationship with two strategically important institutions with a strong low-carbon development focus: the Green Climate Fund and the NAMA Facility. The UK has contributed a total of £223 million in funding for low-carbon development to these institutions during our review period. We visited their headquarters in South Korea and Germany, reviewed UK government and external documents and interviewed stakeholders, including international officials and other funders.
 - **Thematic case studies:** We undertook thematic case studies of four aspects of UK International Climate Finance work:
 - i. How the UK allocates funds across the international climate finance architecture – the complex network of multilateral funds and initiatives through which the bulk of global climate finance is spent.
 - ii. How UK International Climate Finance achieves demonstration effects and mobilises private finance. This included desk reviews of a sample of nine programmes with objectives around supporting the mobilisation of private finance.
 - iii. How the responsible departments measure results at the portfolio level.
 - iv. Innovation and learning in UK International Climate Finance.

Figure 1: Components of the methodology



Box 3: Limitations to the methodology

In this review, we have attempted to assess the contribution of UK climate programmes to mobilising and shaping other sources of climate finance. This is inherently difficult to measure and attribute to UK funding, much of which is spent via multilateral funds and multi-donor institutions with complex funding sources and delivery channels.

For the mobilisation of public finance through the international climate finance architecture, we explored evidence of whether the UK had been effective in its objectives around strengthening the architecture as a whole and the operations of individual multilateral climate funds and initiatives. Regarding the mobilisation of private finance, we examined a sample of bilateral and multi-donor projects with mobilisation objectives. However, these were desk reviews, drawing mainly on results data generated by the programmes themselves, triangulated to the extent possible through key informant interviews. Our focus is on results at the portfolio level; we have had limited scope to explore results within particular sectors or thematic areas.

3 Background

What is low-carbon development?

- 3.1 For the UK and other international climate funders, promoting low-carbon development means helping developing countries to shift to a development trajectory that minimises greenhouse gas emissions while still bringing about economic growth and poverty reduction.¹² This might include, for example, promoting renewable energy infrastructure while at the same time moving towards universal access to energy, or introducing sustainable land management in agriculture that also helps to promote better rural livelihoods.
- 3.2 Promoting low-carbon development in developing countries is essential to global progress on mitigating climate change. The most rapid economic growth and industrial development in the 21st century is likely to occur in developing countries, especially large middle-income countries. Climate finance is used to help developing countries move their economies onto a lower-carbon trajectory – for example by avoiding new investments in carbon-intensive technologies such as coal-powered energy generation in favour of lower-carbon solutions. Low-carbon development can also be an effective way of promoting sustainable economic growth and pro-poor development, even though the upfront investment costs of adopting new technologies may be higher.¹³
- 3.3 The objective of promoting low-carbon development cuts right across the development process, with implications for every sector (see, for example, Box 4 for the energy sector). It is up to each country to determine its ambition, strategies and priorities for climate change action. These are then submitted to the UNFCCC in the form of nationally determined contributions (NDCs). NDCs typically address areas such as:
 - moving to clean energy, including large-scale renewable energy connected to electricity grids, off-grid power and storage solutions
 - green buildings
 - climate-smart urban transport and logistics
 - climate-smart agriculture
 - climate-smart urban water infrastructure
 - climate-smart urban waste management.¹⁴

NDCs should be updated every five years, rising in ambition over time.¹⁵

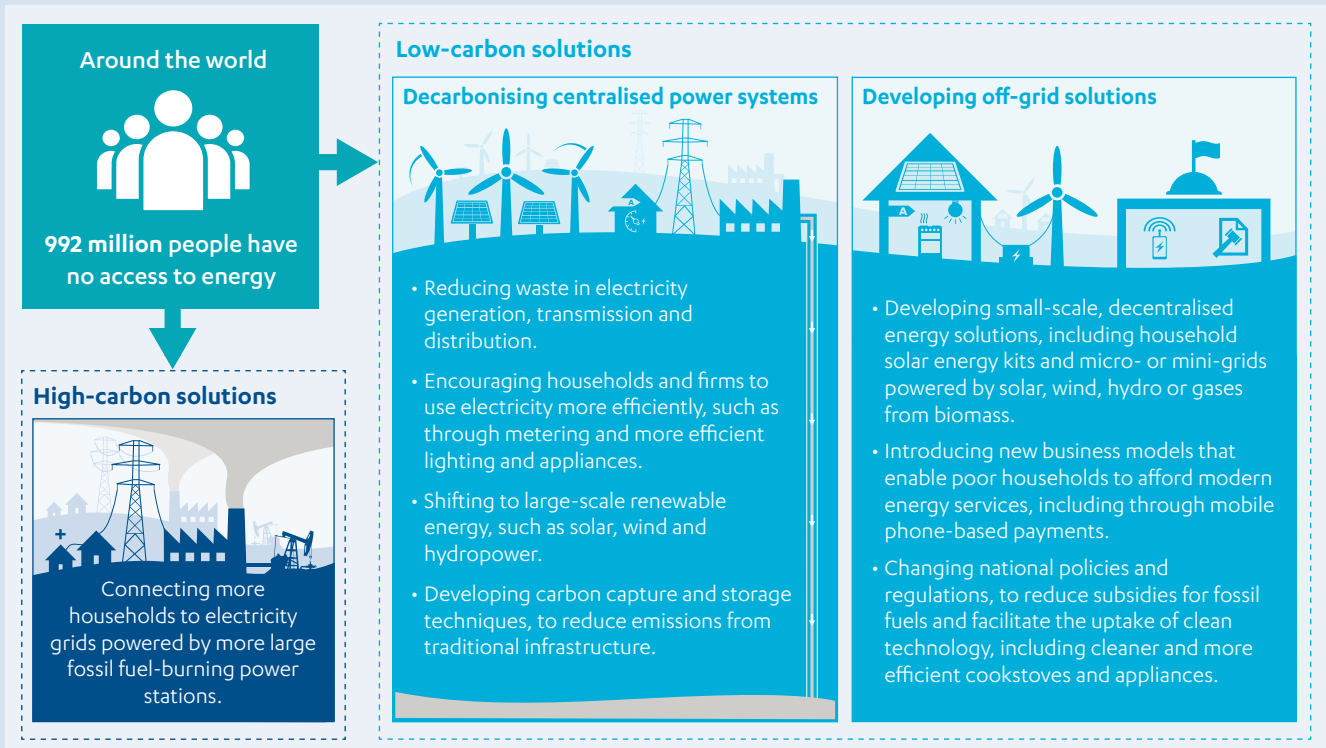
Box 4: Promoting low-carbon development in the energy sector

Around two-thirds of the world's greenhouse gas emissions are from the energy sector and much of the UK's international climate finance goes into the promotion of lower-carbon energy solutions. Around the world, 992 million people have no access to electricity, while 2.7 billion lack access to clean energy for cooking.¹⁶ Expanding access to affordable, reliable and sustainable energy is one of the Sustainable Development Goals and fundamental to achieving many of the other Goals, including poverty reduction and eliminating hunger (boosting food production), education (lighting for schools and home study), health (refrigerating vaccines) and gender equality (providing access to renewable energy reduces the time that women and girls spend collecting firewood).

12. Urban, F., "The pro-poor low carbon development and the role of growth", *International Journal of Green Economics*, 2010, [link](#), Lockwood, M. and Cameron, C., *Approaches to Low Carbon Energy and Development: Bridging Concepts and Practice for Low Carbon Climate Resilient Development*, The Learning Hub, 2012, [link](#).
13. Granoff, I. et al., *Zero poverty, zero emissions: Eradicating extreme poverty in the climate crisis*, ODI, 2015, [link](#).
14. *Creating Markets for Climate Business. An IFC Climate Investment Opportunities Report*. Washington, IFC, 2017, [link](#).
15. *Nationally determined contributions*, UNFCCC website, [link](#).
16. International Energy Agency statistics on access to electricity, [link](#).

The conventional approach to expanding energy access – connecting more households to electricity grids powered by more large fossil fuel-burning power stations – risks locking developing countries into unnecessarily high greenhouse gas emissions for decades to come. The typical coal-fired power station being built today has a 40- to 50-year lifespan.¹⁷

For the energy sector, low-carbon development means both addressing the vast energy deficit in developing countries and meeting the need for more energy for economic growth through renewable energy solutions, which are often now the lowest-cost solutions. This involves many different elements, including:



Present global investment levels in renewable energy are below the estimated investment needs to address the deficit and achieve climate change goals. While international donors can and do provide direct funding for clean energy solutions, their aim is to demonstrate in partner countries, to private companies and financial institutions, that clean energy is both technically and commercially viable. The intention is that this will mobilise investment on a scale that can provide affordable energy for the poor while preventing the need for further large-scale investment in high-carbon infrastructure.

What is climate finance?

- 3.4 Although all countries must take action to tackle harmful climate change, their respective responsibility for past emissions of greenhouse gases and their capability for action are not equal.¹⁸ It is a settled principle of international climate action that developed countries, which have been responsible for the bulk of emissions to date, have an obligation to help finance climate action in developing countries.¹⁹ This is the role of international climate finance.
- 3.5 In Copenhagen in 2009, developed countries jointly committed to providing \$100 billion annually by 2020, from both public and private sources, for climate action in developing countries. This commitment applies until 2025, before which a new higher target will be agreed.²⁰ There is no agreed

17. Lockwood, M. and Cameron, C., *Approaches to Low Carbon Energy and Development: Bridging Concepts and Practice for Low Carbon Climate Resilient Development*, The Learning Hub, 2012, p. 11, [link](#).

18. Averchenkova, A. et al., *Taming the beasts of 'burden-sharing': an analysis of equitable mitigation actions and approaches to 2030 mitigation pledges*, 2014, [link](#).

19. *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, Article 10, UNFCCC, 1998, [link](#).

20. Nakhoda, S. et al., *Climate Finance Fundamentals 2: The Global Climate Finance Architecture*, ODI, 2015, [link](#).

formula, however, as to how much funding each country should provide, or how much should come from public rather than private sources (in other words from aid funds), and it remains up to each national government to establish their contribution.²¹

“While there is no single agreed definition of climate finance, the parties to the UNFCCC are said to be converging towards the following definition: “Climate finance aims at reducing emissions, and enhancing sinks, of [greenhouse gases] and aims at reducing vulnerability, and maintaining and increasing the resilience, of human and ecological systems to negative climate change impacts.”

2018 Biennial Assessment and Overview of Climate Finance Flows Report, UNFCCC, 2018, [link](#)

- 3.6 Developing countries have different initial conditions, needs and priorities for climate finance. Low-income countries often lack the enabling conditions for low-carbon investment, such as supportive government policies and legal frameworks.²² A key role for climate finance is helping to put in place those enabling conditions, usually through technical assistance and grant finance. Where more developed capital markets exist, including in many middle-income countries, climate finance is used to create the conditions for investment at scale, often in areas where there is a limited track record of successful private investment.²³
- 3.7 Most developing countries are not yet in a position to predict the costs involved in shifting to low-carbon development. However, their investment needs are likely to far exceed the international climate finance available from the aid budgets of developed countries.²⁴ The role of aid is therefore to help mobilise funding at scale from other sources, including from the private sector, rather than to fund investments directly. This includes demonstrating the technical and commercial viability of clean technologies and approaches and helping clear away obstacles to private investment – such as unfavourable national policies and regulations, a lack of investment-ready projects, the tendency of commercial financiers to overestimate the risks involved and the often high costs of doing business in developing countries.²⁵ Grants or low-interest loans from donors can be blended with private finance in ways that reduce the risks for private investors.²⁶
- 3.8 Estimates of the amount of climate finance needed to promote low-carbon development in developing countries are based on global models rather than country-specific estimates, and are therefore approximate. In 2017, the World Bank estimated that the 21 most rapidly developing countries would collectively require \$23 trillion in climate investments between 2016 and 2030.²⁷
- 3.9 A complex institutional structure has emerged to channel climate finance from donors to developing countries. We refer to this as the climate finance architecture (see Annex 3). It includes:
- multilateral climate funds (see Box 5) and other intermediaries
 - bilateral funds and multi-donor programmes
 - lending by multilateral development banks from their regular resources
 - funds managed by the private sector and private finance, which in some cases are mobilised by public finance.

21. Parties to the Convention place differing weight on these sources according to their motivation, concessionality and source, geographic origin, causality and the recipient: Bodnar, P. et al., *What Counts: Tools to help define and understand progress towards the \$100 billion climate finance commitment*, 2015, [link](#).

22. *Financing renewable energy: options for developing financing instruments using public funds*, The World Bank Climate Investment Funds, 2013, [link](#).

23. *Mobilising climate investment: The role of international climate finance in creating readiness for scaled-up low-carbon energy*, World Resources Institute, 2013, [link](#).

24. *Perspectives for the Energy Transition: The role of energy efficiency*, IEA, 2018, [link](#), *Creating Markets for Climate Business. An IFC Climate Investment Opportunities Report*, IFC, 2017, [link](#).

25. Bielenberg, A. et al., *Financing change: How to mobilize private sector financing for sustainable infrastructure*, 2016, [link](#).

26. Rawlins, J. et al., *Resource guide for NDC Finance*, LEDS Global Partnership, 2017, [link](#).

27. *Creating Markets for Climate Business. An IFC Climate Investment Opportunities Report*, IFC, 2017, [link](#).

Box 5: Multilateral climate funds

Multilateral climate funds pool contributor finance and spend around specific climate objectives, operating through multilateral, regional or national organisations. A complex architecture of multilateral funds has been built up over the years to channel climate finance to developing countries. Some were established to support implementation of the objectives of the UNFCCC,²⁸ while others have been established outside its auspices. The multilateral climate funds referred to in this review are:

- **Global Environment Facility:** Established in 1991 in preparation for the 1992 Rio Summit to tackle the most pressing environmental challenges around the world, including in developing countries. Part of the UNFCCC framework, it has attracted nearly \$18 billion in grants and mobilised another \$93 billion in co-financing for over 4,500 projects since its inception. Its activities include the protection of sensitive land and marine ecosystems, initiatives to promote sustainable forestry and land use, emissions reduction and adaptation to climate change.
- **Clean Technology Fund:** This \$5.4 billion fund, one of the Climate Investment Funds, established in 2008 outside the UNFCCC framework, provides large-scale funding for the demonstration, deployment and transfer of low-carbon technologies with the potential for significant long-term emissions savings.
- **Scaling Up Renewable Energy Programme:** This \$720 million programme under the Climate Investment Funds, established in 2008 outside the UNFCCC framework, was designed to demonstrate the economic, social and environmental viability of low-carbon development pathways in the energy sector in low-income countries.
- **Green Climate Fund:** Established in 2010 by the parties to the UNFCCC to help developing countries respond to the challenges of climate change, including both adaptation and mitigation. It has a specific mandate to assist developing countries that are particularly vulnerable to climate change, including Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African states. Before the adoption of the 2015 Paris Agreement, the Green Climate Fund was given a central role in supporting implementation of the agreement and its objective of keeping global temperature rise below 2°C above pre-industrial levels. It began mobilising resources in 2014 when it gathered \$10.3 billion in pledges and is increasingly approving funding for projects and programmes as fund guidance and policies are put in place.

In 2017, multilateral climate funds collectively approved close to \$2 billion for 152 projects in 70 countries. Their finance is highly concessional, provided in the form of grants, low-interest loans and more recently guarantees and equity. Channelling climate finance through multilateral funds balances out the preferences of individual donor countries, allows for fairer and more transparent allocation and gives developing countries greater ownership and control of the resulting climate action. The diversity of instruments, each with different objectives, allocation criteria and ways of working, also provides developing countries with more options for accessing funding.²⁹

However, the climate finance architecture is undoubtedly complex. New funds have been created at particular points during international climate negotiations without old initiatives being retired. This has led to overlapping mandates and activities.³⁰

28. The UNFCCC established a financial mechanism to provide financial resources to developing country parties. The Global Environment Facility has served as an operating entity of the financial mechanism since the Convention entered into force in 1994. The Green Climate Fund was designated as an operating entity of the financial mechanism in 2011. In addition, parties established two further funds managed by the Global Environment Facility (the Special Climate Change Fund and the Least Developed Countries Fund), and the Adaptation Fund in 2001, that fall under the UNFCCC framework.

29. Expenditure data comes from the website of each fund. See also *Climate finance: is it making a difference? A review of the effectiveness of multilateral climate funds*, ODI, 2014, [link](#); *10 things to know about climate finance in 2017*, ODI and Heinrich Boell Foundation, 2017, [link](#).

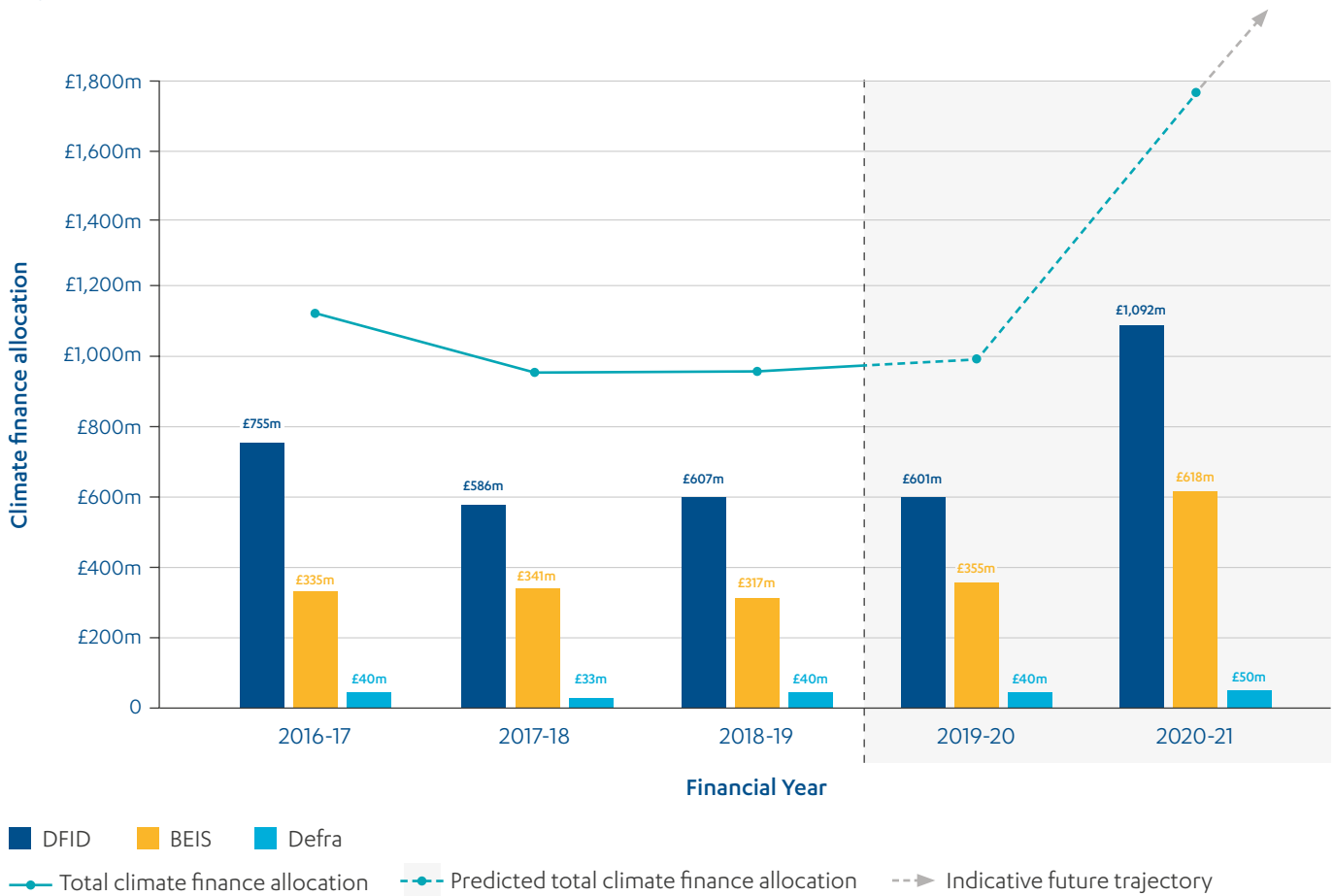
30. *Climate finance: is it making a difference? A review of the effectiveness of multilateral climate funds*, ODI, 2014, [link](#).

The UK's low-carbon development portfolio

3.10 UK International Climate Finance is the term for the UK's contribution towards the \$100 billion a year global climate finance commitment to helping developing countries respond to the challenges and opportunities of climate change.³¹ It consists of the UK's contributions to multilateral climate funds and multi-donor programmes, together with bilateral programmes to support adaptation and mitigation.

3.11 The government is committed to spending at least £5.8 billion between 2016 and 2021 on climate finance – a 50% increase over the previous five-year period – as its contribution to the global target of mobilising at least \$100 billion a year by 2020, from both public and private sources.³² The scale of the commitment reflects the UK's goal of being a global leader on climate finance³³ and is intended to increase the UK's influence within the international climate architecture. The funding is split equally between climate change adaptation and mitigation and comes from the budgets of DFID, BEIS and Defra (see Figure 2).

Figure 2: UK International Climate Finance allocation by department, 2016-17 to 2020-21



The increasing levels of spending on climate finance reflect the UK's commitment to playing its part in the global climate finance commitment for developed countries to mobilise **at least \$100 billion a year** by 2020 for developing countries, and also reflects the global commitment to set a higher goal before 2025.

Source: Data provided by the International Climate Finance Secretariat

31. See International Climate Finance website, [link](#).

32. Announced by the then prime minister, David Cameron, 27 September 2015, ahead of the Paris UNFCCC Conference of the Parties in December 2015, [link](#).

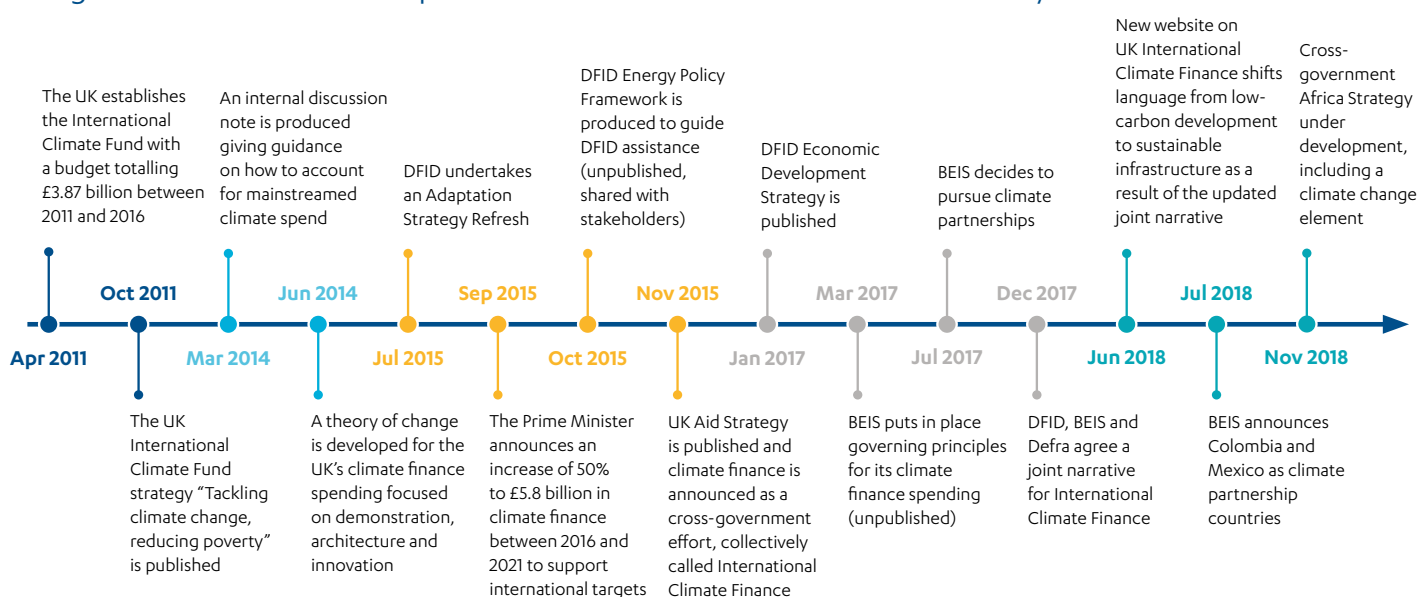
33. *Brown to Green: the G20 transition to a low-carbon economy*, Climate Transparency, 2018, [link](#).

3.12 According to its theory of change (reproduced in Annex 2), UK International Climate Finance delivers results by:

- **Demonstration:** Changing national policies and commercial markets through projects that 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 international climate finance.
- **Innovation:** Pioneering new approaches to delivering climate finance that have the potential to achieve bigger and better results in the future.³⁴

3.13 In the period from 2011 to 2016, the UK’s climate finance was disbursed through a cross-government fund, the International Climate Fund. During this period, the three spending departments worked under joint ministerial oversight with a joint board and a secretariat chaired by DFID. Since April 2016, the responsibility for managing spending targets and programmes has been devolved to the three departments, although the portfolio continues to be branded internationally as ‘UK International Climate Finance’. It retains a cross-government strategy board, which approves the strategy and oversees coherence with UK government policy, and a management board, which monitors expenditure, delivery and risk. There is no official public explanation for the change in central oversight and management arrangements. We were informed that this was to streamline approval processes and to allow the board to focus more on strategy, although some stakeholders have informed us that it reflected a preference for a lower public profile within the UK for climate finance. Figure 3 shows how UK climate finance has evolved over time.

Figure 3: A timeline of the provision of international climate finance by the UK

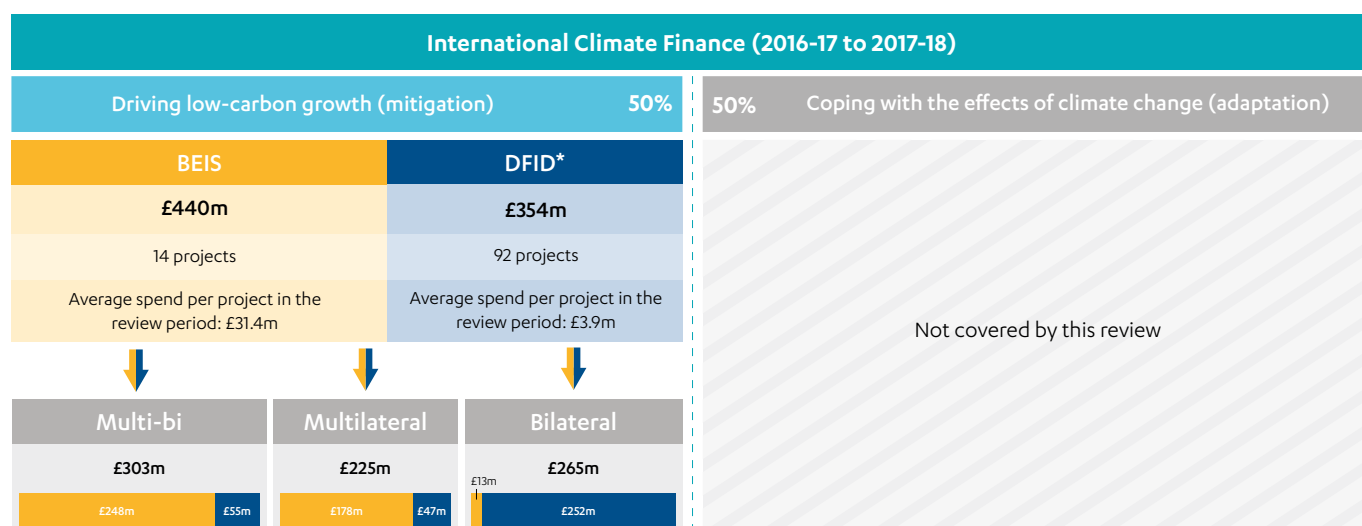


3.14 We calculate that the UK spent just under £800 million on low-carbon development (excluding forestry) in the two years 2016-17 and 2017-18 (see Figure 4). BEIS spent 55% of this, or £440 million. In this review period, the BEIS low-carbon development portfolio consists of 14 programmes, including two contributions to multilateral climate funds (the Clean Technology Fund and the Green Climate Fund) and 12 bilateral programmes. Of the bilateral programmes, all but three are multi-bi programmes (that is, programmes delivered by a multilateral delivery partner but where BEIS has a role in specifying the purpose of the funding and in some cases the recipient). These are managed by a dedicated climate finance team of approximately 46 people in London, as well as staff in some UK embassies. The BEIS low-carbon development portfolio is focused on helping developing countries with large and growing industrial sectors to take large-scale action to reduce emissions.

34. International Climate Fund Theory of Change, June 2014 (see Annex 2).

3.15 DFID has progressively moved from a portfolio of dedicated climate programmes to mainstreaming climate action across its portfolio (it calls this approach ‘integration’). Where low-carbon development is integrated into DFID programmes, the amount attributed to UK International Climate Finance only reflects the share of the programme budget relevant to this objective and not always the full project spending. While DFID still has a number of dedicated climate programmes, including three multilateral contributions and some substantial programmes in the area of renewable energy (that are 100% funded by UK International Climate Finance), for many programmes UK International Climate Finance often comprises only a minor share of the expenditure. (For example, a major health programme might include a small component equipping rural health clinics with solar energy.) DFID’s £354 million expenditure on low-carbon development (excluding forestry) over the past two years is therefore spread across 92 DFID programmes in multiple sectors. There is a dedicated eight-member international team within DFID’s Climate and Environment Department, working primarily on DFID’s engagement with the international climate finance architecture and key multilaterals such as the World Bank and regional development banks. Other teams in the Climate and Environment Department work on other aspects of climate policy. The responsibility for integrating climate finance across the DFID portfolio is shared across the regional departments and country offices.

Figure 4: The International Climate Finance portfolio, 2016-17 to 2017-18†



†Excludes funding spent on forestry.

*DFID’s spending on low-carbon development is integrated across its programmes. The figures given here reflect only the share of programme budgets that DFID has identified as pertaining to low-carbon development.

3.16 Our sample includes six BEIS and three DFID programmes with objectives related to demonstrating the viability of low-carbon initiatives and helping to mobilise private finance. This represents all the BEIS programmes with demonstration and mobilisation objectives, but only a selection of those managed by DFID. These are summarised in Table 2.

Table 2: Our sample of climate programmes designed to mobilise private finance for low-carbon development

Department	Programme name	Timing	Expenditure before 2016-17	Expenditure during review period (2016-17 to 2017-18)
BEIS	Renewable Energy Performance Platform	2015-2020	£2.8m	£45.2m
Supports early-stage development of small- and medium-scale renewable energy projects in sub-Saharan Africa, through technical assistance and results-based financing.				
BEIS	Sustainable Infrastructure Programme Latin America	2017-2022	-	£52m
Aims to accelerate sustainable infrastructure development in Latin America by catalysing private sector investment for the implementation of NDCs.				
BEIS	UK Climate Investments	2015-2019	£3.2m	£11.8m
A joint venture with Macquarie Infrastructure and Real Assets (formerly the UK Green Investment Bank) which makes commercial equity investments into renewable and energy efficiency projects in India and sub-Saharan Africa.				
BEIS	Global Climate Partnership Fund	2016-2024	£30m	£6m
A public-private partnership that lends mainly to local financial institutions for on-lending to low-carbon projects, but can also lend directly. BEIS has also committed funding to run the fund's Technical Assistance Facility.				
BEIS*	Climate Public Private Partnership (CP3) - Asia Climate Partners	2014-2026	£5m	£4.7m
A private equity fund, investing via financial institutions and directly into projects promoting clean energy, resource efficiency and environmental management in Asia.				
BEIS	Global Innovation Lab/CMCI (The Lab)	2014-2021	£0.3m	£0.4m
The Lab is a forum for public and private stakeholders to come together and generate innovative proposals to attract private investments in energy efficiency, renewable energy and sustainable transport.				
DFID*	On- and Off-Grid Small-Scale Renewable Energy in Uganda (GET FIT)	2013-2024	£11.2m	£6.5m
The programme aims to mobilise private investment into renewable energy generation capacity in Uganda by overcoming constraints on private sector investment. It supports the development and completion of small-scale private sector renewable energy projects that feed into the national grid.				
DFID	Renewable Energy and Adaptation Climate Technologies	2010-2021	£4m	£2.1m
Supports for-profit companies in their early stages, sharing the risks as they start out and develop into sustainable businesses. It also provides demand-driven technical assistance to priority countries in Africa.				
DFID	Climate Public Private Partnership (CP3) Seed Capital Assistance Facility	2014-2022	£4m	£4.6m
Provides support to private equity and venture capital funds and project development companies to help them source deals. It also supports first-time fund managers, to increase the number of actors in early-stage climate investment.				

*While CP3 and GET FIT Uganda are ongoing joint programmes between DFID and BEIS, the actual expenditure figures in the period of our review have been attributed to BEIS and DFID respectively.

4 Findings

Does the UK's approach to low-carbon development reflect the needs of developing countries and its international commitments to climate finance?

- 4.1 This section presents our findings on the relevance of the objectives and approach of UK International Climate Finance to low-carbon development. It first considers the UK's approach to strengthening the international climate finance architecture for low-carbon development, before turning to its overall strategy and approach for helping developing countries adopt low-carbon pathways.

The UK uses its multilateral climate finance strategically to strengthen the climate finance architecture

- 4.2 The global political context for climate action is complex. Developed countries vary in their willingness to contribute to the international climate finance target and there are continuing international debates on how to deploy this finance to best effect. The international climate finance architecture continues to evolve rapidly as global financial flows are scaled up.
- 4.3 The UK has made a strong commitment to joint international action on climate change. In our review period, it has directed two thirds of its climate finance for low-carbon development through multilateral and multi-donor channels – a higher proportion than other large contributors who channel greater shares through bilateral channels.³⁵ This both reflects and supports the UK's goal of being a global leader on international climate finance. It places the UK in a stronger position in international climate negotiations to advocate for more financial support from developed countries for climate action. It also enables the UK to be an influential voice within the governing mechanisms of multilateral climate funds, where the processes for allocating funds are agreed.
- 4.4 There are also aid-effectiveness arguments in favour of using multilateral channels. Globally, it is efficient for contributions from multiple countries to be combined into multilateral funds with common objectives and processes, rather than spent through parallel bilateral projects. Multilateral development institutions also specialise in managing large-scale development loans, which are the predominant form of climate finance for middle-income countries. Unlike some bilateral contributors, such as Germany and Japan, the UK does not have a large vehicle for providing development loans (although the development finance institution CDC Group plc (CDC) is an increasingly important channel for climate finance).
- 4.5 We also find that the UK has made strategic choices about which multilateral initiatives to support, in order to ensure coherence, continuity and coverage in the climate finance architecture.
- The UK is the fourth-largest contributor to the **Global Environment Facility's** focal area on climate change.³⁶ The Global Environment Facility is the oldest multilateral climate fund and part of the UNFCCC Financial Mechanism (see Box 5 above). It was designed to work through existing international institutions, such as the World Bank, the UN Environment Programme (UNEP) and the UN Development Programme (UNDP), and provides relatively small-scale project finance across 135 eligible countries. The UK's pledges to this fund demonstrate its long-standing commitment to helping developing countries mitigate and adapt to climate change, but also to global coverage, allowing the climate finance architecture to support all developing countries. However, the Global Environment Facility does not have the same scope as newer funds to work in partnership with developing country entities and institutions or to manage large-scale financial support.
 - The UK is the third-largest contributor to the **Green Climate Fund** based on the original pledges to the fund's initial resource mobilisation.³⁷ This is the newest addition to the Financial Mechanism of the UNFCCC, and enjoys strong support from both developed and developing

35. *Brown to Green: the C20 transition to a low-carbon economy*, Climate Transparency, 2018, [link](#).

36. This includes pledges to the last three replenishments of the Trust Fund, known as GEF Trust Fund 4, 5 and 6. Climate Funds Update, ODI and Heinrich Boell Foundation, [link](#).

37. The UK is the third-largest contributor to the Green Climate Fund based on the country pledges received during the initial resource mobilisation. The UK will become the second-largest contributor to the Green Climate Fund if the US does not contribute the balance of its \$3 billion funding pledge, of which only \$1 billion has been paid in so far, [link](#).

countries. It is expected to become the largest multilateral climate fund over time, thereby helping to rationalise the climate finance architecture. The UK expects it to lead a shift towards supporting country-driven approaches to climate-resilient and low-carbon development. In January 2019, the UK became co-chair of the Green Climate Fund board and will need to work with board members and fund stakeholders towards a successful first replenishment of the fund – the process by which the international community is invited to scale up its investment capital – launched in late 2018 and expected to be completed by October 2019. The UK regards the continuing success of the fund as critical to progressing the climate change negotiations under the UNFCCC process.

- The UK is also a major contributor to a number of other more mature climate funds that it regards as strategic. These include the **Clean Technology Fund** and the **Scaling Up Renewable Energy Program**, which are designed to build an understanding of how climate finance can be deployed at scale to bring about transformation in clean technology and energy access in selected developing countries. These funds may be phased out as the Green Climate Fund reaches its intended scale, but at present they continue to operate alongside the Green Climate Fund. The UK's contributions to these funds ensure continuity of support in this area. The two funds channel their expenditure through the World Bank and regional development banks. The UK contribution therefore also provides an opportunity to influence how the multilateral development banks spend their climate finance.

4.6 The UK has also taken steps to fill gaps in the climate finance architecture. For example, it worked with Germany to establish the NAMA Facility. Under the UNFCCC, developing countries were asked to propose specific mitigation initiatives, known as Nationally Appropriate Mitigation Actions (or NAMAs).³⁸ None of the existing multilateral mechanisms were in a position to fund these. The UK considered it important to do so, to promote developing country ownership and leadership of low-carbon development. The NAMA Facility was therefore created, both as a financing mechanism and as a political signal that developed countries were willing to support country-led initiatives.

4.7 Beyond exercising its influence as a contributor to climate funds, we also saw evidence of effective influencing of other international actors on low-carbon development – especially the multilateral development banks.³⁹ This includes advocacy for scaling up low-carbon investments and phasing out high-carbon ones. It has used the Cartagena Dialogue (a working group of countries dedicated to promoting low-carbon development), the G20 and the G7 to build high-level support for climate action. However, we found no explicit influencing strategy at the level of UK International Climate Finance nor objectives against which to assess the UK's approach.

UK International Climate Finance has been explicit in aligning with the needs of developing countries, but country plans remain at an early stage

4.8 Good development practice suggests that developing country ownership and leadership will be essential for effective action on low-carbon development.⁴⁰ However, many developing countries remain at an early stage in articulating their national strategies and identifying priority investment needs.

4.9 We find that the UK's international climate programmes have generally displayed a well-balanced approach to helping partner countries articulate low-carbon development objectives and then providing finance to support their implementation. A number of programmes support the development of country plans, including:

- The **NDC Partnership**, a coalition to enhance cooperation between countries for the implementation of their climate change ambitions and Sustainable Development Goals.⁴¹

38. See glossary, Annex 1.

39. This is in line with the UK's Multilateral Development Review, which identifies that the UK is determined to drive reform and continuous improvement across the multilateral system. *Raising the standard: the Multilateral Development Review 2016*, DFID, 2016, [link](#).

40. *The Effectiveness of International Climate Finance*, ODI, 2013, [link](#).

41. NDC Partnership website, [link](#).

- Additional support for the secretariat of the **NAMA Facility** to integrate nationally determined contributions (NDCs) into the facility's objectives (as these were introduced after the facility was designed).

4.10 Across the programmes we reviewed, there were well-designed processes in place to ensure that investments are consistent with partner governments' stated ambitions. We found that the need for alignment was clearly addressed in the business cases of bilateral programmes, as required by DFID's *Smart Rules* and guidance. In some instances, there were further requirements for delivery partners to align with country needs for low-carbon development. For example:

- The **Sustainable Infrastructure Programme Latin America**, a new BEIS programme delivered through the Inter-American Development Bank, is required to use partner countries' emissions plans as a starting point to identify investments.
- The multilateral climate funds that the UK supports have screening processes in place to ensure alignment. For example, the Green Climate Fund will only approve projects that have the support of a national point of contact to ensure consistency with national climate and development plans and preferences.

4.11 The UK also provides technical assistance to improve the quality of national climate strategies. For example, UK technical assistance is helping to build capacity in local financial institutions to support low-carbon investments and to develop pipelines of investable projects, including through demonstration projects and support for project preparation.⁴² There is also support to national governments and other bodies to identify low-carbon development needs, draft strategies, make the required legislative and institutional changes and implement projects:

- The **Renewable Energy Performance Platform** accounts for £45.2 million in low-carbon development spending over the review period. It supports early-stage project development in sub-Saharan Africa by providing technical assistance and results-based finance for the development and construction of small and medium-sized renewable energy projects.
- The **Global Climate Partnership Fund** accounts for £6 million over the review period. The programme is a public-private partnership which provides loan finance for low-carbon development projects, both directly and through local financial institutions. BEIS had previously invested £30 million in the Global Climate Partnership Fund to this end in 2013. The funding covered by our review period has been provided by BEIS for a technical assistance facility which supports fund investors in project design and technical appraisal of potential initiatives and helps them better assess investment risks.

4.12 BEIS is in the process of developing climate partnerships with a number of countries that have high ambitions for transitioning to low-carbon development and the capacity to achieve results at scale. These will help to align the UK's various climate initiatives (including new programmes planned under the Prosperity Fund) into a strategic framework agreed with the partner country. (DFID has country strategies for its development assistance as a whole, but not specifically for climate change or low-carbon development.) The partnerships will include:

- Agreement to deepen bilateral cooperation on climate action.
- Technical assistance through the UK Partnering for Accelerated Climate Transitions (PACT) programme to support the development and implementation of NDCs, drawing on UK skills and expertise, with particular focus on deforestation, clean energy, green finance and climate legislation and governance.⁴³
- Where appropriate, investment capital to support sustainable infrastructure.

42. *Green Growth in Practice: Lessons from Country Experience*, Green Growth Knowledge Platform, 2014, [link](#).

43. This technical assistance will be delivered through the UK PACT programme, a new £60 million BEIS-run technical assistance programme to increase the capacity and capability of partner institutions, to facilitate increased ambition for emissions reductions at the country level.

- 4.13 Colombia and Mexico have been identified as the first candidates for climate partnerships, with others in the pipeline. In Colombia and Mexico, the initial focus will be on helping the governments define their plans and policies for implementing their NDCs. According to BEIS documents, the climate partnerships are intended to raise the visibility of UK climate finance and create mutually beneficial partnerships, including by opening up opportunities in sectors where UK companies have a comparative advantage. These partnerships have the potential to support the alignment of UK climate finance with developing countries' national priorities, but are currently too new to assess.
- 4.14 In China, the UK PACT programme will focus on green finance, building the capacity of China's financial sector to support low-carbon initiatives both domestically and internationally. China is a front-runner among developing countries in establishing a green financial system,⁴⁴ and the programme will help unlock further financial flows in China while developing learning for global application, building on the existing UK-China relationship on green finance.

BEIS has a clear strategy for promoting low-carbon development in countries with large or rapidly growing emissions

- 4.15 BEIS has developed a set of unpublished 'governing principles' for its climate programming.⁴⁵ These state that the programmes will focus on:
- Large-scale mitigation, particularly in countries with large or rapidly growing emissions.
 - Transformational change and private finance mobilisation.
 - Increasing UK visibility in relation to climate action, in line with recent government priorities, and identifying opportunities for secondary commercial benefits for the UK.

“ BEIS will continue to prioritise large-scale mitigation and private sector projects in countries with large or rapidly growing emissions. This complements DFID's focus on adaptation and building climate resilience in the poorest countries. ”

BEIS ICF Governing Principles: Strategy and operating model for international climate finance, 2017, unpublished

- 4.16 BEIS programmes focus on countries with large or rapidly growing emissions, which tend to be large middle-income countries. This reflects the much greater current and projected contribution of middle-income countries to global emissions, compared with low-income countries, and the fact that emissions have global impact wherever produced. The intention is that UK climate finance be applied in a catalytic manner in these countries, to unlock much larger investments by national authorities and the private sector. Internal documents indicate that BEIS and DFID are aware that it is important to avoid using UK climate finance to substitute for investments that the country itself or the market should undertake.⁴⁶ The policy is therefore to limit grant funding in middle-income countries to technical assistance, while providing loans via delivery partners for investment.
- 4.17 There is a focus on using UK resources to mobilise private finance through demonstration projects. The strategy covers different levels of market maturity, as follows:
- In countries or sectors where capital markets are relatively underdeveloped, the approach focuses on demonstrating that investments in low-carbon development can be economically advantageous to developing countries and also offer a financial return to investors. The measures can include providing support to develop bankable project concepts, building capacity in partner countries to overcome regulatory and institutional barriers, trialling new

44. *Financing the transition from brown to green: How to track country performance towards low-carbon, climate-resilient economies*, Climate Transparency, 2017, p. 15, [link](#).

45. *BEIS ICF Governing Principles: Strategy and operating model for international climate finance*, BEIS, 2017, unpublished.

46. *A Framework for Appropriate Terms for International Climate Finance*, ICF, unpublished.

technologies or business models and influencing the multilateral development banks to be more climate-smart in their support. The main focus is on the energy sector, but BEIS also supports other sectors, such as green buildings and cities.

- In areas where financial markets are more mature, the strategy is to create conditions for scaling up private finance. This includes providing financial support to governments, developers and lenders for the design, preparation and implementation of new investment projects, to demonstrate to the market that risks are manageable and profits achievable on low-carbon investments. BEIS also supports local financial institutions, to broaden the range of financial instruments available in developing country markets, while promoting the ‘greening’ of global capital markets by working in international forums to shift incentives in favour of investment in low-carbon development.

- 4.18 We have seen evidence of this differentiated approach being taken forward into BEIS programming. For example, at the smaller end of the market the Global Climate Partnership Fund (£36 million; 2013-2024) helps local finance institutions, such as commercial banks, to provide loans to small- and medium-sized enterprises and households for small-scale renewable and energy efficiency projects in developing countries. The Renewable Energy Performance Platform (£48 million; 2015-2020) bundles together small- and medium-scale renewable energy projects in sub-Saharan Africa, so as to unlock capital from larger financial institutions such as multilateral banks. At the other end of the spectrum, BEIS and DFID are anchor investors⁴⁷ in the IFC Catalyst Fund (£61.4 million UK contribution), a private equity fund-of-funds for climate-friendly investments in emerging markets that is designed to attract large-scale institutional investors such as pension funds and sovereign wealth funds.
- 4.19 BEIS’s objective of increasing the visibility of the UK’s climate finance and creating opportunities for secondary commercial benefits for UK firms is an increasingly common feature of the UK aid programme, which we have explored in previous reviews.⁴⁸ According to senior stakeholders, there are concerns that delivering UK international climate finance mainly through multilateral channels has limited the visibility of UK climate finance through a lack of UK branding. The move towards country partnerships is intended to provide more opportunity to showcase UK climate finance, as well as to identify sectors where UK firms are likely to be competitive.
- 4.20 Overall, we find that BEIS has a well-considered strategy for its low-carbon development investments, with a clear and well-justified set of priorities and approaches. Given the UK’s position in international climate negotiations and its commitment to climate action at a global level, BEIS’s predominant focus on middle-income countries is defensible only as part of a wider strategy across UK International Climate Finance as a whole that also addresses the needs of low-income countries on low-carbon development.

DFID has a clear strategy for promoting low-carbon development in the energy sector but not in its wider portfolio

- 4.21 DFID’s largest and longest-running programmes on low-carbon development are in the energy sector. DFID developed an *Energy Policy Framework* in 2015. It lists ‘enhancing environmental sustainability’ as one of three objectives for the sector, alongside supporting economic development and ensuring equitable energy access. It states that DFID will help developing countries ‘leapfrog’ to clean and renewable energies, tackle inefficient fossil fuel subsidies and other barriers to the uptake of clean energy, develop markets for off-grid solutions and invest in sustainable cities with energy-efficient building designs and transport systems.
- 4.22 The commitments include working with partner countries on policy, planning and regulatory reform – for example by creating a clear legal framework for investments in off-grid energy markets. To that end, DFID’s Energy Africa initiative is developing ‘compacts’ with 14 African countries which identify measures to improve the business environment for off-grid solar power (such as by removing tariffs on imported equipment).

47. An initial investor whose presence helps to instil confidence in other potential investors.

48. *The cross-government Prosperity Fund*, ICAI, February 2017, [link](#). *Global Challenges Research Fund*, ICAI, September, 2017, [link](#).

- 4.23 The Energy Africa initiative also contains a section on leveraging private finance into the energy sector. This goal is common to many initiatives and is being pursued through a number of routes. The Private Infrastructure Development Group, which ICAI assessed as part of the review of DFID's transport and urban infrastructure investments,⁴⁹ supports renewable energy projects through forms of funding designed to reduce the risks for other investors. The largest development capital investments into clean energy by DFID are made through the UK's development finance institution, CDC. CDC has established an off-grid solar debt initiative with up to \$150 million in funds for lending to companies.⁵⁰ In 2017, it also established a Resource Efficiency Facility to provide project preparation grants and low-cost loans to CDC investee companies to encourage them to invest in projects that reduce their emissions.⁵¹ DFID's contribution to CDC was its largest commitment to low-carbon development (£86 million) in our review period. CDC is the subject of a separate ICAI review.⁵²
- 4.24 In the review period, DFID's bilateral investments in low-carbon development have predominantly been in the renewable energy sector. By way of illustration, assistance includes the following:
- The **Solar Nigeria Programme** (£66 million; 2014-2020) is installing solar power in 200 schools and eight health centres in Lagos state, while seeking to expand the commercial market for solar power products in northern Nigeria. This support is complementary to DFID health and education programmes in Nigeria.
 - The **Transforming Energy Access programme** (£65 million; 2016-2022) supports the early-stage testing and scale-up of innovative technologies and business models to deliver affordable and clean energy to poor households and enterprises, primarily in Africa. The programme includes research, capacity building and impact investment. It involves a partnership with the Shell Foundation, which provides co-financing as well as leading on one of the six programme components on accelerating enterprise-led innovation in technology business models.
 - The **Sustainable Energy for Women and Girls programme** (£17.8 million; 2015-2019) promotes market-based energy solutions across Africa that particularly benefit women and girls, including promoting clean cookstoves (and research to generate behavioural insights around their uptake), electrification of health facilities with a focus on maternal and neo-natal health, and promoting the embedding of gender into Sustainable Energy For All, a multilateral initiative established in 2011 to promote implementation of Sustainable Development Goal 7 on universal energy access.
- 4.25 Overall, we find that DFID has a credible approach to mainstreaming low-carbon development in the energy sector. It has a clearly articulated strategy through the Energy Policy Framework that is reflected in its programming. While this has been shared with stakeholders, the Framework has not been published externally.
- 4.26 We have found no equivalent approach in other sectors important for low-carbon development. DFID's 2015 infrastructure strategy⁵³ makes only passing references to low-carbon development objectives, despite this being a key sector for low-carbon development given the long lifespan of infrastructure investments. There are no references to low-carbon development in DFID's ambitious targets for water, sanitation and hygiene, or in its conceptual framework on agriculture.
- 4.27 DFID's emerging portfolio on cities and urban development, which we covered in another review,⁵⁴ offers additional opportunities to promote low-carbon development. The programming remains at an early stage, however, and the examples we reviewed were focused on promoting resilience to climate change, rather than low-carbon development. We are informed that a new government-wide strategic approach to Africa will include the promotion of low-carbon and climate-resilient investments in Africa.

49. *DFID's transport and urban infrastructure investments*, ICAI, October 2018, [link](#).

50. The CDC debt initiative will invest the equivalent of up to \$150 million of local currency debt into the off-grid solar market. See press release: *New \$20 million CDC investment will help bring solar power for a million off-grid homes in East Africa*, CDC, 11 October 2017, [link](#).

51. *CDC's Resource Efficiency Facility*, CDC, undated, [link](#).

52. *CDC's investments in low-income and fragile states: Approach Paper*, ICAI, May 2018, [link](#).

53. *Sustainable infrastructure for shared prosperity and poverty reduction: A policy framework*, DFID, January 2015, unpublished.

54. *DFID's transport and urban infrastructure investments*, ICAI, October 2018, [link](#).

DFID's approach to integrating climate finance has fallen short of its ambitions

- 4.28 Since 2014, DFID's approach to climate finance has progressively shifted from a set of dedicated programmes to integrating climate action across its portfolio. There is a good case to be made for this: low-carbon development is a principle that should be integrated across all development assistance, rather than a separate sector or type of activity.
- 4.29 However, we have significant concerns about the way that DFID has approached integration. DFID has not articulated its objectives for, or approach to, low-carbon development beyond the energy sector, nor has it articulated the principles that should govern integrated programming. The 2011 joint strategy *UK ICF Tackling climate change, reducing poverty*⁵⁵ defined the purpose and priorities of UK international climate finance, but has not been updated. DFID's 2015 *Adaptation Strategy Refresh*⁵⁶ set out its approach to making its investments resilient to the expected impacts of climate change (adaptation), but DFID has no equivalent strategy that articulates an overall approach to integrating low-carbon development objectives into its programming. According to senior stakeholders, the approach has been left to emerge in a bottom-up and organic way, with country offices taking the lead. A 2018 evaluation of the integration of International Climate Finance in DFID programmes⁵⁷ found variable performance across country offices as a result.
- 4.30 We are concerned about this lack of leadership and support. The process of moving from dedicated climate change programmes to mainstreaming climate action across the portfolio is a complex one.⁵⁸ From ICAI reviews of other mainstreaming initiatives, including disaster risk reduction and disability,⁵⁹ we found that a concerted effort was needed to put in place the right systems, capacities and incentives to integrate cross-cutting objectives.

“ There is a perception among the interviewees for this portfolio evaluation that the priority DFID places on climate change has reduced over the past two years, which has reduced the motivation to include climate change action in programmes. ”

Portfolio Evaluation I – Integration of ICF. HMG Compass, Final Report, 2018, unpublished

- 4.31 A concerted approach to integrating low-carbon development would require clear strategic choices as to where to invest resources across a wide range of possibilities (for example renewable energy, better land and water management, forestry, sustainable agriculture, mass transit systems for rapidly growing cities). While it is appropriate for each country office to decide where to invest, we would have expected to see more guidance and support from the centre on how to analyse country needs and prioritise investments. DFID's country-led approach could be supported with more specific low-carbon development guidance that is able to reflect and amplify country-led priorities. We would also expect a positive commitment to raising low-carbon development opportunities in policy dialogue with all partner countries and the integration of low-carbon development objectives into all relevant sector programmes, not just on energy.
- 4.32 DFID has not put in place the supporting mechanisms that we would expect to see for an ambitious integration process. It has produced a brief (five-page) guidance note on how to account for climate expenditure within wider programmes, designed to ensure that DFID is able to track its climate-related expenditure and meet its spending commitments.⁶⁰ However, there is no substantive guidance on how to go about integrating low-carbon development into development programmes – for example

55. *UK ICF Tackling climate change, reducing poverty*, ICF, 2011, [link](#).

56. *ICF Adaptation Strategy Refresh*, DFID, 2015, unpublished.

57. *Portfolio Evaluation I – Integration of ICF. HMG Compass, Final Report, 2018, unpublished*.

58. *Mainstreaming Climate Change Adaptation into Development Planning: A Guide for Practitioners*, UNEP and UNDP, 2011, [link](#). *A typology of activities with climate co-benefits: Definitions, step-by-step guidance and examples*, World Bank, October 2013, [link](#).

59. *Building resilience to natural disasters*, ICAI, February 2018, [link](#), *DFID's approach to disability in development*, ICAI, May 2018, [link](#).

60. *ICF Policy: Integration Climate Spend*, internal DFID document, undated.

setting out how to identify or prioritise opportunities to promote low-carbon development in different sectors. There is no senior champion of the integration process to ensure it receives enough management attention. There is no central technical or financial resource to support the development of country-level low-carbon development strategies or the design of individual programmes.

- 4.33 There are climate advisers in some country teams to support the process, but their numbers decreased slightly between 2014 and 2016 and although they are now set to rise, they are not available in all country offices. DFID stakeholders informed us that the central climate and environment team provides technical support for programmes with a substantial low-carbon development focus, but we were not able to validate this.⁶¹
- 4.34 DFID's *Smart Rules* (which provide the operating framework for DFID's programmes) do not mandate the consideration of low-carbon development objectives in programme design.⁶² There are some references in DFID's programming guidance to making programmes resilient to the future effects of climate change, but not to minimising emissions. A number of the DFID staff and all the wider stakeholders we spoke to believed that DFID's work on climate change was limited to adaptation and resilience and that promoting low-carbon development was the responsibility of BEIS.

UK International Climate Finance has introduced a strong system for accounting for its climate expenditure

- 4.35 The UK has, however, done well at building a system to account accurately for its climate-related expenditure. Most contributor countries report their climate finance using broad estimates (such as assuming that a fixed percentage of investments in particular sectors are climate-related).⁶³ The UK is one of the few countries (along with the US) that require each programme to report on its climate-related expenditure, although practices vary somewhat across country offices.

The difference in approaches between BEIS and DFID means that the UK's global approach to low-carbon development is not clearly articulated

- 4.36 The shift in UK International Climate Finance from a fund to a portfolio risks leading to a loss in overall strategic direction. The overarching strategy for the UK's international climate finance from 2011⁶⁴ has not been updated and its status is currently unclear. A portfolio-wide theory of change from 2014 has also fallen into disuse. In 2017, the objectives of UK International Climate Finance were updated on the government's website. These reflect a single-page joint narrative, generated in 2017, that articulates at a high level what UK International Climate Finance seeks to achieve and how it will position itself internationally. The website describes UK International Climate Finance objectives as:
- Building the resilience of poor people and communities (adaptation).
 - Promoting low-carbon and climate-resilient infrastructure in developing countries, while using UK finance to build capacity, bring down the costs of the low-carbon transition and unlock private finance for clean growth.
 - Halting deforestation.

While these are important and useful objectives, many aspects of the UK's approach to climate finance are not clearly articulated – including sectoral or geographic priorities, the division of labour between the three responsible departments and the link between low-carbon development and poverty reduction.

- 4.37 There appears to be emerging specialisation between the departments. BEIS has a clear strategy for its work on mobilising investments in emissions reduction in countries with large or rapidly growing emissions, while DFID focuses principally on adaptation in low-income countries and has a policy framework governing its renewable energy work which is currently under review. However, this leaves low-carbon development in low-income countries de-emphasised in the bilateral portfolio, other

61. DFID informs us that the forthcoming Africa Strategy will provide an opportunity to increase climate cadre adviser posts by 2020.

62. DFID Smart Rules Version IX, [link](#).

63. *Climate Finance Shadow Report*, Oxfam, 2018, [link](#).

64. *UK ICF Tackling climate change, reducing poverty*, ICF, 2011, [link](#).

than in the renewable energy sector. This could be perceived as inconsistent with the UK's objective in international climate negotiations of giving all developing countries access to resources to support their transition to low-carbon development.

- 4.38 We are also concerned that there is no public statement of the objectives and priorities of UK International Climate Finance. Neither BEIS's 'governing principles' nor DFID's *Energy Policy Framework* have been published, though the latter has been made available to selected stakeholders. Given that the UK is seeking to lead by example in international climate finance, we can see no justification for this lack of transparency.

Conclusions on relevance

- 4.39 The UK has made clear strategic choices around its multilateral climate investments. Its substantial multilateral contributions serve to demonstrate its commitment to global climate action, while giving it a strong voice within the evolving global climate finance architecture.
- 4.40 Programmes are designed to promote developing country leadership of climate action, including through technical assistance to help them articulate their objectives and financial support for new initiatives. A number of the UK's multilateral investments have been selected so as to provide more funding for nationally led initiatives.
- 4.41 BEIS has a clear strategy for its low-carbon development programming. There is a strong rationale for BEIS's focus on middle-income countries, where emissions are growing fastest. In particular, it has a well-articulated approach to mobilising other sources of finance for low-carbon development, differentiated according to market conditions.
- 4.42 DFID has a clear approach to promoting low-carbon development through transition to clean energy, with a strong portfolio of programmes. However, this is the only sector in which DFID has a clearly articulated approach to promoting low-carbon development. Elsewhere, it has relied upon a country office-led approach to integrating low-carbon development across programming. While there is a good case in principle for a country-led approach, we find that the integration process has not been well planned and lacks leadership, guidance and financial and technical support.
- 4.43 Overall, we find that UK International Climate Finance has a clear approach to supporting the international climate finance architecture, aligning with country priorities, mobilising other finance and promoting renewable energy. However, we are concerned that DFID has not approached integration in a convincing manner and that the portfolio as a whole risks losing strategic coherence due to the lack of a clear strategy and division of labour for the portfolio, particularly for low-carbon development in low-income countries. This merits a **green-amber** score for relevance.

How effective is UK International Climate Finance at promoting investment in low-carbon development?

- 4.44 The scale and speed of the change that will be required to the global economic system to keep global temperature rise well below 2°C above pre-industrial levels is unprecedented. The majority of the investment will need to come from the private sector. At present, private investment is held back by a range of factors, such as the untested nature of low-carbon technologies, high upfront capital costs and unfavourable business conditions in many developing countries. The job of public climate finance is to unlock those investments.
- 4.45 In this section, we explore whether UK low-carbon development programming is having a catalytic effect on other financial flows. We look first at how effective the UK has been at mobilising and shaping other climate finance through the international climate finance architecture. We then turn to how well the programmes in our sample have done at demonstrating the viability of new low-carbon approaches and mobilising private finance.

DFID and BEIS have been effective in using their influence across multilateral and multi-donor funding for low-carbon development

- 4.46 As a major funder of several key multilateral climate change funds, the UK has positively influenced their operations through its position on their governing boards and committees. BEIS and DFID have used their position to shape investment portfolios, including by setting investment criteria and vetoing investments they regarded as inappropriate. They have also pushed for improvements to systems and processes, particularly monitoring, evaluation and learning. As international climate funds spend through a range of channels, including the multilateral development banks, these efforts have helped to promote improved investment practices across the climate finance architecture.
- 4.47 BEIS and DFID report annually on how well their contributions to multilateral climate funds have performed against their objectives. The strengths and weaknesses that emerge inform the positions taken by the UK on governing boards. In the Clean Technology Fund, for example, stakeholders confirm that the UK is working to strengthen the Fund's risk management approach. It has successfully advocated for the introduction of dashboards that give management improved oversight of currency and implementation risks.
- 4.48 For the Green Climate Fund, we found that BEIS and DFID (which share the UK representation on the board and various committees) had pursued an active influencing agenda. While it is difficult to isolate the UK's impact from that of other contributors, there is evidence of progress in the following areas:
- **Raising project quality** – The UK plays a leading role in the investment committee, and more broadly we saw evidence of various successful interventions at board level to improve investment quality, through changes to project selection criteria and new policies on combining grants and concessional loans more effectively.
 - **Strengthening results orientation** – From its inception, the UK advocated and provided technical support for the establishment of an effective results framework, building on its own experience with monitoring the International Climate Fund (see paragraph 4.55). The UK also supported the establishment of an Independent Evaluation Unit.
 - **More private sector engagement** – The UK has been a strong advocate for joint initiatives with the private sector, in support of the fund's objectives to mobilise wider finance flows. It supported the establishment of a private sector facility, which leads the fund's efforts to attract joint investments with institutional investors and corporations, such as pension funds and insurance companies.⁶⁵ The private sector facility screens potential co-investors to verify that they share the Green Climate Fund's objectives and have appropriate systems and policies.
 - **Strengthening capacity** – The UK has pushed for increases in the fund's administrative capacity by advocating for more staff. The fund's secretariat began with 40 people in 2013 and now has over 200.
- 4.49 According to informed stakeholders, from both other contributor countries and international organisations, the UK supports its climate finance with strong technical inputs, making it a highly credible partner. For the NAMA Facility, we saw evidence that the UK had contributed to progress in a number of areas, including:
- **Improved project quality** – Established by the UK and Germany in 2012, the NAMA Facility is now on its sixth funding round and has 20 active projects, amounting to around £200 million collectively. We saw evidence that the UK had helped to improve its operations in various areas, including through enhanced guidance and support for applicants (such as through webinars and presentations). Over time, more applications have met the eligibility criteria, suggesting that UK efforts have helped developing countries access the funds.
 - **Better monitoring and evaluation** – A mid-term evaluation of the NAMA Facility indicates that the UK was instrumental in developing its first theory of change and in establishing a monitoring and evaluation framework, based on the UK's own experience. The logframe developed by the UK for its own contribution to the facility was also adopted by the facility for its portfolio as a whole.

65. Private Sector Facility, Green Climate Fund, [link](#).

DFID and BEIS have reported good results on capacity building, demonstration and mobilisation within our sample of nine programmes

- 4.50 From the list of low-carbon development programmes that the responsible departments provided to us, 33 had objectives around mobilising climate finance.⁶⁶ To assess their effectiveness, we conducted desk reviews of a sample of nine programmes, listed in Table 2 above. These accounted for £133 million, or 17%, of the total investment in low-carbon development within the scope of our review period. We looked at their achievements in three areas:
- building national capacity and enabling environments for low-carbon development
 - demonstrating the technical and financial feasibility of low-carbon investments
 - mobilising other financial flows.
- 4.51 On capacity building, the projects reported a good range of achievements against their objectives. For example, **GET FIT** is a DFID and BEIS-funded programme in Uganda that has been working with the Ugandan Energy Regulatory Authority to build its capacity to support renewable energy projects. It helped to develop and implement a feed-in tariff and improved regulatory environment, whereby small-scale energy generators could sell energy back into the grid at variable prices that reflected the state of the market. Following UK investment, the Authority is now able to operate the feed-in tariff scheme without donor support. GET FIT now helps to finance small renewable energy projects. Over time, there has been a steady increase in the number and quality of proposals it has received, suggesting that the improved regulatory environment is attracting increasing interest from investors. The programme has exceeded its 2017 targets for clean energy capacity installed (it achieved 58 megawatts versus a target of 50 megawatts), while also exceeding its targets for job creation (with over 6,800 jobs created versus a target of 3,500).⁶⁷
- 4.52 A number of projects have succeeded in demonstrating the value of new technologies and approaches, whether for the first time or in places or contexts where they had not been tried before. For example, the BEIS **Renewable Energy Performance Platform** provides financial and technical support for small and medium-sized renewable energy projects in sub-Saharan Africa. In Chad it helped to develop the first grid-connected geothermal project in an area where geothermal energy had not been tried before (costly drilling is required to determine whether there is enough steam being generated for economic electricity generation). In Nigeria it helped to attract private capital into an off-grid rural electrification scheme, using a novel pay-as-you-go system.
- 4.53 On the mobilisation of private finance, the programmes have succeeded in addressing various barriers to private investment and in leveraging other investment. DFID and BEIS have engaged with a wide range of partners in the public and private sectors, including national banks, institutional investors such as pension funds, developing country governments and private companies, helping them to develop the capacity to identify and invest in promising projects. For example, the **Global Climate Partnership Fund** is a BEIS programme with a global remit that encourages local financial institutions to lend to small and medium-sized enterprises and households in developing countries for low-carbon initiatives in energy, agriculture, industry, transport and buildings. It has succeeded in attracting co-funding from development finance institutions and commercial investors, such as banks and pension funds. It has achieved double its target for attracting private investment, mobilising £154 million. By the end of 2017, it had invested £376 million through 30 local partner institutions that made 53,000 sub-loans in 22 countries.⁶⁸ It has facilitated investments in green buildings in Panama, a solar farm in Namibia and solar-powered irrigation systems for sugar farmers in India.⁶⁹ The resulting investments are predicted to deliver 10 million tonnes of lifetime savings of CO₂ emissions (equivalent to the annual emissions of Tanzania).⁷⁰

66. When asked to identify projects that mobilised private finance for low-carbon development, DFID identified a further eight programmes in addition to those provided to ICAI at the outset of the review.

67. *GET FIT Annual Review 2018*, DFID, 2018, [link](#).

68. *GCPF Annual Review 2018*, BEIS, July 2018, [link](#).

69. *Mitigating Climate Change Together*, Global Climate Partnership Fund, undated, [link](#).

70. *GCPF Annual Report 2017*, Global Climate Partnership Fund, 2017, p. 5, [link](#).

- 4.54 The **Global Innovation Lab** is another BEIS programme that supports innovative financing models for low-carbon development. It is a forum in which public and private stakeholders come together and generate innovative proposals to attract investment in climate action, crowdsourcing ideas for new financing approaches that are then tested with experts and the most promising ones are piloted. So far, 25 Lab ideas have mobilised nearly \$1 billion in additional investments for climate change actions, a third of which comes from private sector actors. This represents a return of more than 3:1 on the initial investment.⁷¹ The Green Aggregation Tech Enterprise (GATE) was selected for development during the last call for innovative ideas. GATE encourages private investment in mini-grids – small-scale systems that can operate without being connected to a centralised electricity grid – in sub-Saharan Africa. It addresses the uncertainty in electricity demand that can lead project developers to default on their debts, guaranteeing a baseline level of revenues to developers by charging them premiums and pooling the revenue risk of many mini-grid systems.
- 4.55 UK International Climate Finance measures its overall progress on mobilising public and private finance through key performance indicators (KPIs). The cumulative result over the past seven years has been £3.3 billion mobilised from public sources (developed and developing countries) and a further £910 million in private finance.⁷² Within our sample, the nine projects with private finance objectives mobilised £102 million in public finance and £154 million in private finance. It is not possible to benchmark these figures against those of other contributors, owing to the lack of a common definition of ‘mobilisation’ and the fact that some of these mobilisation results may also be claimed by other contributors who co-fund the same initiatives. It is therefore difficult to reach a definitive conclusion on the adequacy of the return on this investment. Overall, however, the pattern of successful delivery across our case studies and the aggregate mobilisation figures suggest that the portfolio is achieving good results on demonstration and mobilising other finance.

There is some early evidence that the portfolio is contributing to transformational change

- 4.56 A key concept in international climate finance is ‘transformational change’ – that is, investments that catalyse wider changes, leading to a shift from one state to another (for example from conventional to low-carbon technologies) or an acceleration in the pace of change. UK International Climate Finance has ambitious transformation goals and tracks whether key investments have been, or are likely to be, transformational – although it is a difficult area to measure progress through a specific KPI (see Box 6).
- 4.57 Measuring and tracking transformational change is challenging. However, there is good evidence that the programmes in our sample may be contributing to transformational change through their efforts on capacity building, demonstration and mobilisation. Stakeholders interviewed were in agreement with UK International Climate Finance’s ratings of programmes using the system described in Box 6. Four programmes show tentative evidence of transformation, with early evidence on a fifth showing that transformation is likely but remains too early to judge (the remaining programmes have no evidence yet available or are not scored). The successful examples include the following:
- **GET FiT Uganda** (see paragraph 4.51 above) is rated as potentially transformational through its development of a new tariff structure that encourages investment into renewable energy.
 - **Global Climate Partnership Fund** (see paragraph 4.53 above) rates well for capacity building, replicability and scale. Its technical assistance has increased the capacity of local financial institutions to invest in low-carbon initiatives, which in turn has increased the demand for funding. As the investments have proved commercially viable, the approach is considered replicable.

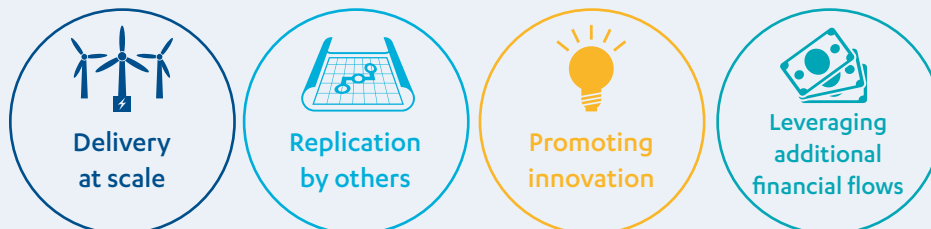
71. *The Lab: Impacts and lessons learned, 2014-2017*, January 2018, [link](#).

72. *2018 UK Climate Finance Results*, ICF, 2018, [link](#).

Box 6: How UK International Climate Finance is contributing to the measurement of transformational change

An overarching principle guiding UK International Climate Finance investment is the need for transformational change. It has therefore developed a 'theory of change for transformational change'.⁷³ There are four ways in which it can be achieved and eight criteria for transformation:

How UK International Climate Finance defines transformational change



How programmes seek to achieve transformational change

Political will and local ownership:

Need for the change is agreed locally and the process is locally owned. For widespread changes, notably changes to the patterns of development, this will require high-level political buy-in and broader support from across society.

Capacity and capability can be increased:

Countries and communities have the capacities and capabilities necessary to bring the change about.

Innovation:

Innovative technologies are piloted, with the potential to demonstrate new ways of doing things, which could lead to wider and sustained change.

Leverage/create incentives for others to act:

The costs of climate action are reduced to the point that acting on climate is a sensible decision for commercial firms and private individuals. These cost reductions may need to be steep enough to overcome behavioural inertia.

Evidence of effectiveness is shared:

Approaches which have proved successful in one location are made widely available and lessons on their usefulness are credible and shared widely.

Replicable:

Good ideas piloted by International Climate Finance are replicated by others in the same country and more widely.

At scale:

Interventions (such as national, sectoral or regional programmes) that have sufficient reach to achieve institutional and policy reform, or drive down costs of technology deployment.

Sustainable:

Change is likely to be sustained once International Climate Finance support ends.

Projects use these criteria to measure their contribution to transformational change and these results are captured within a single KPI. This is an innovative reporting framework in a very subjective area and programmes are still grappling with how to measure and report progress against the indicator. As any transformational impacts are likely to take time to emerge, it tracks the potential, which is scored on a scale from zero (unlikely) to four (clear evidence and likelihood of transformational change).

73. ICF KPI 15: Extent to which ICF intervention is likely to have a transformational impact, undated, [link](#).

- 4.58 BEIS and DFID’s financial and technical support to the Clean Technology Fund is outside our sample, but is included here as an example of an investment mature enough to assess whether transformational change is occurring. It has been given the top rating for transformational change, scoring particularly well on mobilising other finance flows and creating incentives for others to act. Many of its investments have succeeded in leveraging additional private sector funds. In Turkey, for example, a £117 million contribution from the Clean Technology Fund – combined with £624 million from multilateral development banks – raised £390 million in private sector financing for renewable energy and energy efficiency.⁷⁴
- 4.59 We also find that UK programmes have helped developing countries to articulate and implement national low-carbon development strategies and initiatives. This has been done through a combination of technical assistance and UK support for multilateral climate funds that provide resources for country-led initiatives. Across the various possible criteria for transformational change, we find the strongest UK contribution lies in building political will for, and local ownership of, climate action and improving the willingness and capacity of financial markets to invest in low-carbon initiatives.

The lack of a clear and developed public narrative around UK International Climate Finance may be inhibiting greater effectiveness

- 4.60 There is only limited information in the public domain about the overall UK International Climate Finance portfolio. Apart from basic information on the website, there is no detailed and up-to-date statement of its strategy or approach (see paragraph 4.36). While expenditure data and programme documents are available online via DFID’s Development Tracker website, there is no clear public narrative for the portfolio, its objectives or its geographical spread.⁷⁵ Germany, by contrast, has a website dedicated to its International Climate Initiative, the projects supported, their objectives and their geography. The integrated nature of DFID’s portfolio also makes it more difficult for the public to get an overview of its climate work.
- 4.61 Interviewees from developing countries, the private sector, civil society and research organisations all noted that there had been a decrease over time in the level of external engagement of UK International Climate Finance. Some of our interviewees were familiar with particular programmes or initiatives, but had little awareness of the portfolio as a whole.
- 4.62 For UK International Climate Finance, a clear public narrative would facilitate stronger accountability, allowing external actors to assess UK International Climate Finance goals, activities and achievements. Better visibility of UK International Climate Finance would help to support its objectives around influence, demonstration and mobilisation of other finance flows, for example by building a clearer link between UK International Climate Finance and the City of London. This is acknowledged in BEIS’s unpublished strategy: “to have impact our focus needs to be on demonstration and making visible, distinctive and catalytic investments that can be scaled up and replicated by others”.⁷⁶ We would therefore have expected a much more proactive approach to external communications in order not to miss opportunities to achieve more through UK International Climate Finance.

Conclusions on effectiveness

- 4.63 The UK is an influential player within the international climate architecture, using its position as a major donor to influence investment criteria, portfolio management processes and individual investment choices. It backs its investments with high quality technical inputs. In our institutional case studies, we found that BEIS and DFID had assessed the strengths and weaknesses of chosen multilateral funds and used their positions on governing boards and committees to press for improvements, achieving important change in a range of areas. We cannot reach a conclusion as to whether the UK has helped to attract more international funding for the international climate architecture as a whole or for specific partners, but we have seen evidence that it has succeeded in improving the quality of investment and results orientation in particular.

74. CTF KPI 15 Assessment, BEIS, 2017, unpublished.

75. This has been a common ICAI finding across official development assistance spending funds, including, for example, *The Conflict, Stability and Security Fund’s aid spending*, ICAI, March 2018, [link](#), *Global Challenges Research Fund*, ICAI, September, 2017, [link](#), *The cross-government Prosperity Fund*, ICAI, February 2017, [link](#).

76. BEIS Governing Principles for the ICF, BEIS, 2017, unpublished.

- 4.64 A sample of programmes with objectives for mobilising private finance for low-carbon development indicates that technical assistance is supporting: 1) the development of national policies and strategies, 2) changes in national regulations to make them more supportive of low-carbon investments and 3) capacity building in regulatory agencies. There is also support going into building the capacity and confidence of national financial institutions to lend to small-scale low-carbon initiatives. We found good examples of work to demonstrate the viability of introducing new technologies and business models into local markets. The cumulative figure of finance raised from public and private sources is £4.2 billion, which is a positive outcome for the UK's climate finance even if there are no readily available benchmarks for comparison. We further found that they have made good progress in putting in place key conditions for catalytic impact.
- 4.65 However, we found poor understanding among external stakeholders of the UK's International Climate Finance, and only limited information about the overall portfolio in the public domain. Increased visibility would support accountability of UK International Climate Finance spending and help encourage engagement of expert actors. The consolidation and sharing of best practice across the portfolio could also support the more rapid scale-up of investment in low-carbon development.
- 4.66 We award a **green-amber** score for effectiveness. This is in recognition of a good pattern of results in improving the workings of the international climate architecture and in supporting the mobilisation of private finance. However, poor external visibility and understanding of UK International Climate Finance is likely to hinder its ability to achieve objectives around influence and demonstration for low-carbon development.

How well do UK investments in low-carbon development promote and reflect learning and evidence?

- 4.67 In this section, we consider how well the UK has contributed to generating and sharing research and evidence on low-carbon development, before considering how adaptive UK International Climate Finance is in response to results and learning.

The UK has made an important contribution to promoting better results measurement across the international climate finance architecture

- 4.68 The UK has been a strong and consistent advocate of the need to generate and share evidence of the results of low-carbon development spending.⁷⁷ It has placed a strong emphasis on developing results frameworks and improving monitoring and evaluation processes across the international climate finance architecture. Our interviews with multilateral agencies and other contributors confirmed that other actors in the climate finance area look to the UK as a thought leader on the monitoring and evaluation of climate finance.
- 4.69 Our case study of the UK's work with the NAMA Facility showed that it has had a strong influence on its monitoring and evaluation processes. UK International Climate Finance was instrumental in establishing the first theory of change for the NAMA Facility. The NAMA Facility adopted indicators to measure its global results that had been developed by BEIS for its own business case. Aligning the performance indicators used by the NAMA Facility and by UK International Climate Finance as a whole has been helpful in managing the portfolio.
- 4.70 Similarly, for the Green Climate Fund, the UK has been a strong advocate for putting in place a results management framework to generate better results data. Despite substantial pressures for the new fund to make investments, the UK has consistently emphasised in Green Climate Fund board meetings the need to ensure that all projects are of a high quality. It has also advocated ensuring that clear processes for the measurement of impact are in place before the start of each investment. The fund's results framework draws on the UK's experience in monitoring UK International Climate Finance. The UK has invested in technical support to help shape monitoring and evaluation in the fund. UK experts have had extensive engagement with staff from the fund's secretariat and board.

77. *The UK's International Climate Fund*, ICAI, December 2014, [link](#).

4.71 UK International Climate Finance has also supported a learning work stream for the Climate Investment Funds, called the Evaluation and Learning Initiative.⁷⁸ The UK contributed £6 million to this initiative, now in its third and final year, which serves as a learning laboratory for climate finance. Stakeholders confirm the UK has been an active member of the advisory group supporting the initiative's design and providing ongoing guidance. The initiative has completed over 30 studies organised into four learning themes: transformational change, private sector investment, local stakeholder engagement and the design and approach of the Climate Investment Funds. This learning is already having a wider influence on global practice. For example, the World Bank, as a trustee and administrator, has worked with the initiative to update its Climate Change Action Plan, influencing a much wider pool of climate-related spending.

UK efforts to define and measure transformational change are informing other climate finance contributors

4.72 The UK's strong emphasis on transformational change is influencing other funders and agencies. UK International Climate Finance has been a leader on defining and measuring this challenging, complex but important route for achieving results from climate finance. The UK has successfully supported the embedding of transformational change into the operations of the NAMA Facility, for example, which funds only those Nationally Appropriate Mitigation Actions with the potential to catalyse impact beyond NAMA support through scaling up and replication.

4.73 The UK is also supporting the Transformational Change Learning Partnership, part of the Climate Investment Fund's Evaluation and Learning Initiative. The UK International Climate Finance team is active within this learning community, helping to develop and test definitions and theories of change for transformational change with a view to deriving the best impact from limited public climate finance (see Box 7).⁷⁹

Box 7: The role of UK International Climate Finance in the Transformational Change Learning Partnership

The Transformational Change Learning Partnership established by the Climate Investment Fund's Evaluation and Learning Initiative in 2017 consists of 20 to 30 Climate Investment Fund stakeholders and external actors. As a core funder, the UK has had a seat on the advisory group from the beginning and has played an instrumental role in designing, assessing and guiding the work. The partnership serves as a learning community that develops and tests definitions and theories of change for transformational change. The group is also working with evaluators on a portfolio review and evaluative research, and will help interpret early findings and their relevance for the Climate Investment Fund and climate finance actors more widely.

Key deliverables include learning workshops, theories of change on transformational change in the Climate Investment Fund, a portfolio review, deep dive research reports and a synthesis report summarising the available evidence on transformational change and making recommendations for future action. Its third objective is to "ensure value creation through effective engagement, dissemination and uptake". The partnership's work is informing results framework development at the Green Climate Fund, among other bilateral donors, and, moving beyond climate finance, in World Bank Trust Fund Committees. Its wide-ranging engagement and reach has significant potential to further stimulate climate change action.

Source: *Annual Report and Work Plan*, Climate Investments Fund, 2017, [link](#)

The UK has developed innovative KPIs to measure and report the performance of its portfolio, but is not yet making full use of the data generated

4.74 UK International Climate Finance has progressively developed an innovative and workable set of KPIs for its investment in international climate finance. There are 16 KPIs, although some of these are still under development and results are published for only six KPIs – typically those with the more frequently reported results and those that are more quantitative in nature. The KPIs relevant to low-

78. Climate Investment Fund Evaluation and Learning Initiative, [link](#).

79. *Annual Report and Work Plan*, Climate Investments Fund, 2017, [link](#).

carbon development include access to clean energy, the reduction or avoidance of emissions and the mobilisation of other public and private climate finance (see Annex 4). Inevitably, these KPIs only capture part of the overall achievement of the portfolio, but they provide a useful yardstick against which to assess performance.

- 4.75 The KPIs of UK International Climate Finance are significantly more developed than those used by other climate finance contributors and indeed by other UK official development assistance (ODA) funds – no other cross-government ODA fund or portfolio provides this level of accountability and transparency around results.⁸⁰
- 4.76 The KPIs are one of the remaining unifying features of the portfolio, enabling joined-up reporting of aggregate results. All UK International Climate Finance programmes report annually against at least one KPI relevant to their aims,⁸¹ although our review found that in practice programmes tend to report on at least three KPIs.⁸² Reported data is logged onto an internal online database managed by DFID, the Knowledge Platform.⁸³
- 4.77 However, we found that the KPIs and the Knowledge Platform tended to function more as reporting and accountability tools than as learning mechanisms. A recent portfolio analysis of UK International Climate Finance found that reporting on its KPIs is seen by programmes as burdensome, representing another layer of reporting (programmes also have their own logframes to report against).⁸⁴ Programmes are not required to set targets or milestones against the KPIs, although some have done so. This means that the KPI mechanism cannot reliably be used to assess whether the portfolio is delivering results at the intended scale. We could not find evidence that KPI data was being used to assess the balance or overall performance across the portfolio, to inform corrective actions.
- 4.78 UK International Climate Finance has committed to spending £12.8 million on central monitoring, evaluation and learning processes, under the leadership of DFID’s Climate and Environment Department. Of this, £9.5 million will go towards a single contract to deliver results, evidence and knowledge spanning the whole portfolio between 2015 and 2019, known as the ‘Compass’ contract. The terms of reference state: “The ICF was designed as a learning portfolio, and value for money will only be maximised if the innovations being piloted and tested are learned from and scaled up.”⁸⁵ Compass originally included the further development of KPI measurement methodologies, thereby strengthening monitoring and reporting aspects. However, the UK International Climate Finance Monitoring, Evaluation and Learning team has now recognised that reporting had been emphasised at the expense of learning. It has therefore re-scoped Compass to now include portfolio-level evaluation and learning, as described below, and is currently undertaking an internal review to assess how meaningful and fit for purpose the KPI framework is.

Lessons from low-carbon development programming are not yet systematically captured and shared

- 4.79 Both BEIS and DFID undertake annual programme reviews, reflecting on performance from the previous year and identifying areas for improvement. In addition, some programmes conduct independent programme evaluations to provide an external review of performance, impact and sustainability. A good range of research reports and peer reviews are commissioned to ensure business cases are well informed and to guide investment decisions.
- 4.80 There are also dedicated programmes that support learning, synthesis and dissemination. Bespoke learning work streams have also been established within several programmes, including the Climate Investment Fund and the Climate Public Private Partnership. These provide additional learning beyond the standard programme review cycle, but in the cases we examined it is too early to assess whether the resulting learning will be used to inform future programming.

80. *The Conflict, Stability and Security Fund's aid spending*, ICAI, March 2018, [link](#), *Global Challenges Research Fund*, ICAI, September, 2017, [link](#), *The cross-government Prosperity Fund*, ICAI, February 2017, [link](#).

81. Some programmes do not report on KPIs in their early stages.

82. The only major exception to this is the expenditure through CDC. UK International Climate Finance has allocated £235 million to CDC since 2015, but this is not yet represented in UK International Climate Finance results as CDC’s methods for impact measurement have yet to be aligned with those of UK International Climate Finance.

83. The Knowledge Platform was intended to be a short-term platform until DFID’s own Aid Management Platform (the AMP) was able to incorporate monitoring and reporting data. However, the contract was extended several times to facilitate ICF’s annual results reporting.

84. Portfolio Evaluation 1 – Integration of ICF, November 2018.

85. *Terms of Reference: Monitoring, Evaluating and Learning from the International Climate Fund*, internal document, undated.

- 4.81 DFID's bottom-up approach to integration makes systematic learning on low-carbon development more challenging. There is no central point or hub with responsibility for oversight or learning from low-carbon development programmes. The Climate and Environment Department provides some technical support to programme teams and encourages them to share learning across programmes. However, the central team is not resourced to support this actively, for example by capturing and disseminating learning generated at the programme level.
- 4.82 During the 2015 UK government spending review, BEIS conducted a lesson learning exercise from its 2011-15 climate finance portfolio. This was used to inform its governing principles (described above). BEIS has begun to prioritise learning as strategically important at both programme and portfolio levels. It now provides monitoring, evaluation and learning services to all its programmes, irrespective of their size or strategic value, having ring-fenced up to £18 million between 2018-19 and 2020-21 as part of its Knowledge, Evidence and Engagement portfolio.
- 4.83 Overall, we see evidence of an increased emphasis over time on generating and sharing learning. In particular, the Compass contract now includes five portfolio-level evaluations that will draw lessons from across the portfolio. The first evaluation, published in 2018, explored whether the integration of climate finance across DFID's portfolio has helped to drive better climate change outcomes.⁸⁶ The second will focus on progress in mobilising private finance for low-carbon investment through demonstration.
- 4.84 The re-scoping process, however, caused significant delays, leaving most of the portfolio-level evaluation work to be completed in the final year of the contract. Additional effort may therefore be needed to promote the sharing and uptake of learning from the evaluations.

Conclusions on learning

- 4.85 The UK is an active participant in international learning processes, with a strong focus on results management. It has played a leading role in harmonising approaches to results measurement across the major climate finance actors and has helped to catalyse wider changes in practice, particularly through the Evaluation and Learning Initiative under the Climate Investment Funds.
- 4.86 There is a good range of investment in research and analysis on low-carbon development, with a particular focus on transformational change. Stakeholders from multilateral climate funds and other contributors confirmed that the UK has made a substantial contribution to building the knowledge base for global climate action.
- 4.87 The UK has made considerable progress on capturing aggregate results through a set of portfolio-level KPIs. It is now able to generate aggregate results in several key areas, such as emissions savings and finance mobilised. However, the emphasis to date has been on establishing a credible results reporting mechanism. There is limited evidence that the results data is being used to inform portfolio management and learning.
- 4.88 UK International Climate Finance does not have strong mechanisms for capturing learning from individual programmes and sharing them across the portfolio. It has made a substantial investment in contracted-out monitoring, evaluation and learning mechanisms. This monitoring and evaluation contract included, for example, technical development of KPIs. Following a pause, this contract has now been re-scoped to include portfolio-wide evaluations on key thematic areas, which is likely to be a useful investment in learning. However, the re-scoping resulted in a year's delay and the key learning will not be available until the final year of the Compass contract.
- 4.89 Overall, we award UK International Climate Finance a **green-amber** score for learning, in recognition of the substantial and sustained investment in results measurement and knowledge generation and dissemination that have effectively influenced multilateral actors in this space. However, there are some significant outstanding concerns around how knowledge is being used to inform programme and portfolio management.

86. *Portfolio Evaluation I – Integration of ICF. HMG Compass, Final Report, 2018, unpublished.*

5 Conclusions & recommendations

Conclusions

- 5.1 In our 2014 review, we found that the International Climate Fund had made a substantial contribution to catalysing global action on climate change, both through its own funding and by influencing international actors and developing countries to intensify their efforts on climate change. Many of the strengths we identified then remain in place now. UK International Climate Finance serves as a vehicle for directing the UK's international climate finance commitments, making strategic choices about where to invest. It enables the UK to be an influential actor within the international climate finance architecture, with a voice in the use of much larger amounts of climate finance. The low-carbon development programming is focused on demonstrating the viability of low-carbon initiatives. UK International Climate Finance engages effectively with a wide range of actors and is enjoying some success in promoting leadership of low-carbon initiatives by developing countries and mobilising private finance into low-carbon investments. UK International Climate Finance makes significant investments in knowledge and learning to support low-carbon development, and is a major advocate of a stronger focus on results in international climate action.
- 5.2 DFID has a clear strategy for the energy sector. However, we are concerned that its approach to integrating climate change across its wider portfolio is not commensurate with the scale of the challenge. While there is a good case in principle for integration, with no strong departmental champion, a minimum of central resources and little effort to 'hardwire' climate into the business process, there is a substantial risk that DFID's work on low-carbon development will lose focus and intensity.
- 5.3 We are also concerned that the divergence in approach between BEIS and DFID opens up the risk of a loss of strategic coherence across the portfolio. BEIS has developed a strong approach to promoting large-scale mitigation in high-emission, predominantly middle-income countries. This makes sense as a focus area for BEIS, but only within the context of a wider strategy that also ensures effective action in low-income countries.
- 5.4 The lack of an up-to-date strategy and theory of change for UK International Climate Finance as a whole and the apparent weakening of strategic management at the global portfolio level could allow gaps to emerge within the portfolio in the longer term.
- 5.5 UK International Climate Finance is built on strong foundations. There are many very positive elements to its work, which merit an overall **green-amber** score. However, we share the concern of stakeholders both within and outside the responsible departments that UK International Climate Finance has not invested enough effort in keeping its strategy focused and up to date. Notwithstanding the substantial investment in results management, it could tell a more public and convincing story about its goals, activities and achievements.

Recommendations

Recommendation 1: UK International Climate Finance should refresh its strategy, including a clear approach to promoting low-carbon development and to integrating low-carbon development principles across the UK aid programme.

Problem statements

- Key strategy documents for the portfolio have not been updated since 2011.
- Basic principles underlying the portfolio – such as the thematic and geographical priorities or how to ensure the link between low-carbon development and poverty reduction – have not been made explicit.

- While BEIS has a clear approach to promoting large-scale action on emissions that predominantly leads to programming in middle-income countries, there is a lack of clarity on UK International Climate Finance's approach to promoting low-carbon development in low-income countries.
- The division of labour between BEIS and DFID on low-carbon development has never been explicitly or publicly articulated and there is a danger that the growing differences in their approach will result in a loss of coherence and coverage in the portfolio over time.
- There is no overarching commitment for UK official development assistance spending more generally to avoid carbon-intensive investments. This could undermine the efforts and impact of UK International Climate Finance at both national and international levels.

Recommendation 2: DFID should adopt a more structured and deliberate approach to integrating low-carbon development across its programming.

Problem statements

- DFID has moved to an integrated or mainstreamed approach to low-carbon development without an adequate change management plan.
- There is no senior departmental champion or central technical and financial resource to support the integration process and no clear obligation to consider low-carbon development in programme designs.
- DFID's approach to low-carbon development in the energy sector is credible, yet in other sectors it is much less convincing.
- Guidance on integrating low-carbon development into other sectors is missing or underdeveloped and there is limited evidence that programming in other sectors includes an assessment of opportunities to promote low-carbon development.

Recommendation 3: UK International Climate Finance should present a clear public narrative about the ambition and value of the UK's climate investment to support its demonstration and influencing objectives, as well as to improve visibility and public accountability.

Problem statements

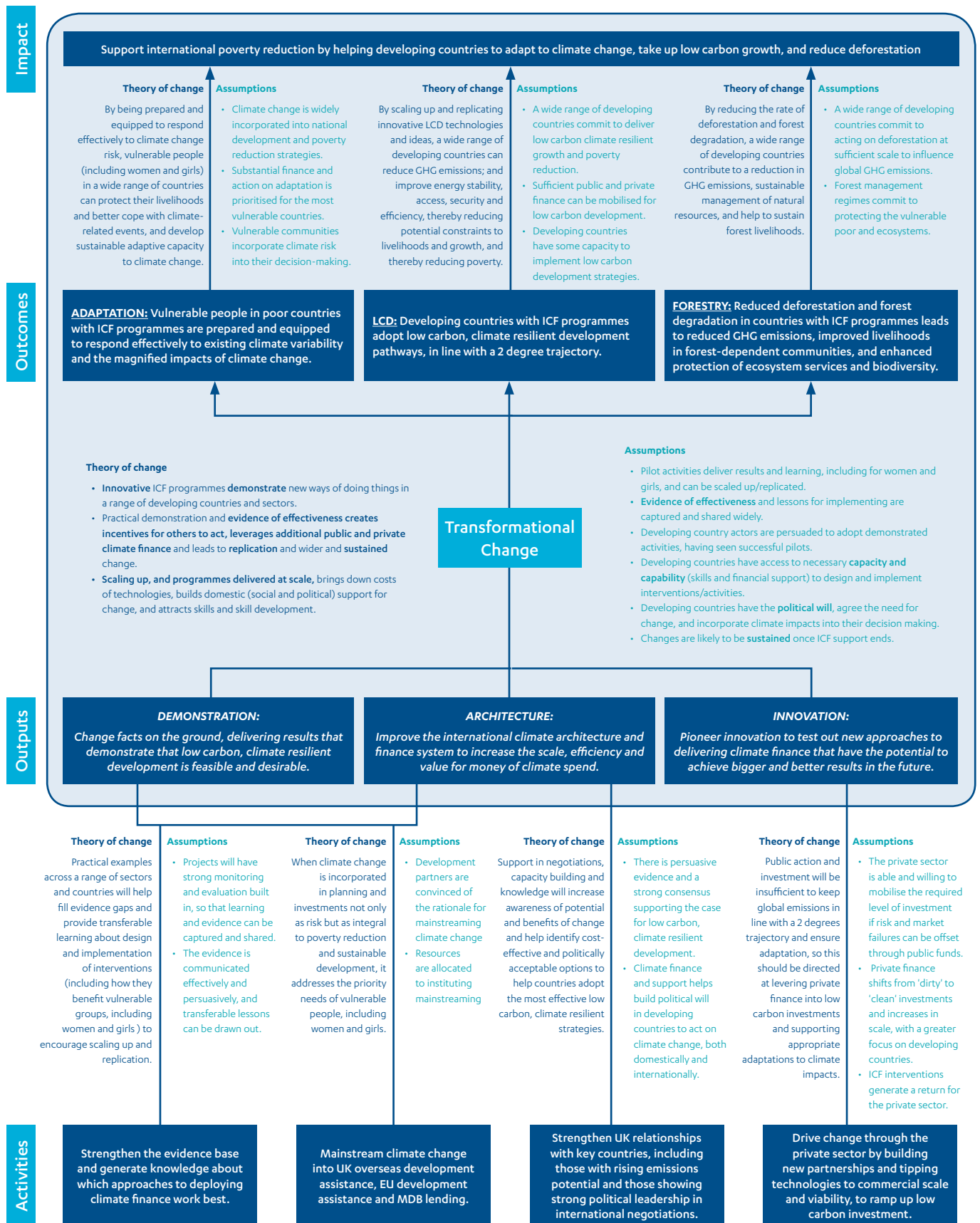
- The UK is not providing a clear and developed public narrative on the ambition or the benefits of UK International Climate Finance.
- Documentation from 2011 remains 'current' as to the overarching objectives of UK climate finance spending in developing countries.
- There is limited information in the public domain on the geographical and sectoral coverage of UK International Climate Finance.
- The lack of visibility or a clear narrative reduces the engagement of external experts in UK International Climate Finance, including for example the private sector, and does not support influencing and demonstration objectives.
- The paucity of information on the goals and activities of UK International Climate Finance is not consistent with the UK's ambitions to be a global leader on international climate action.

Annex 1 Glossary

Adaptation	Adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.
Capacity building	In the context of climate change, the process of developing the technical skills and institutional capability in developing countries and economies in transition to enable them to address effectively the causes and results of climate change.
Clean energy or renewable energy	Power generated from resources such as sunlight, wind, tides and geothermal heat which are naturally replenished.
Clean Technology Fund (CTF)	The CTF is a multilateral climate finance fund set up as part of the Climate Investment Funds, alongside the Strategic Climate Fund, in July 2008. Administered by the World Bank, it aims to provide finance for low-carbon energy projects or energy technologies in developing countries that reduce greenhouse gas emissions.
Climate change	Any change in climate over an extended period of time, typically decades, whether due to natural variability or as a result of human activity.
Dedicated multilateral climate fund	Multilateral institutions that channel funding from various contributors to finance activities to address climate change in developing countries.
Energy efficiency	The ratio of useful energy output of a system, conversion process or activity to its energy input.
Fossil fuels	Carbon-based fuels from fossil hydrocarbon deposits, including coal, peat, oil and natural gas.
Global Environment Facility (GEF)	The GEF is a trust fund that provides grants to developing countries for projects that benefit the global environment and promote sustainable livelihoods in local communities. It acts as a financial mechanism of the UNFCCC and is accountable to its parties. Replenishment takes place every four years and the Conference of the Parties reviews its performance every four years.
Green Climate Fund (GCF)	The GCF was designated as an operating entity of the UNFCCC's financial mechanism. The fund is governed and supervised by a board that has full responsibility for funding decisions and receives guidance from the Conference of the Parties. The fund aims to play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and catalysing climate finance, both public and private and at international and national levels.
Greenhouse gases (GHGs), commonly referred to as 'emissions'	The atmospheric gases responsible for causing global warming and climate change. The major GHGs are carbon dioxide (CO ₂), methane (CH ₄) and nitrous oxide (N ₂ O). Less prevalent – but very powerful – greenhouse gases are hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF ₆).
Intergovernmental Panel on Climate Change (IPCC)	A global scientific body for the assessment of climate change, established in 1988 by the United Nations Environment Programme (UNEP) and the World Meteorological Organization (WMO). Its purpose is to report on the current state of scientific knowledge about climate change and its potential environmental and socio-economic consequences. The preparation of the Assessment Reports on Climate Change is a key activity of the IPCC, reviewing and assessing the most recent scientific, technical and socio-economic information produced worldwide relevant to the understanding of climate change. There have been five of these to date, from the first in 1990 to the fifth in 2014.

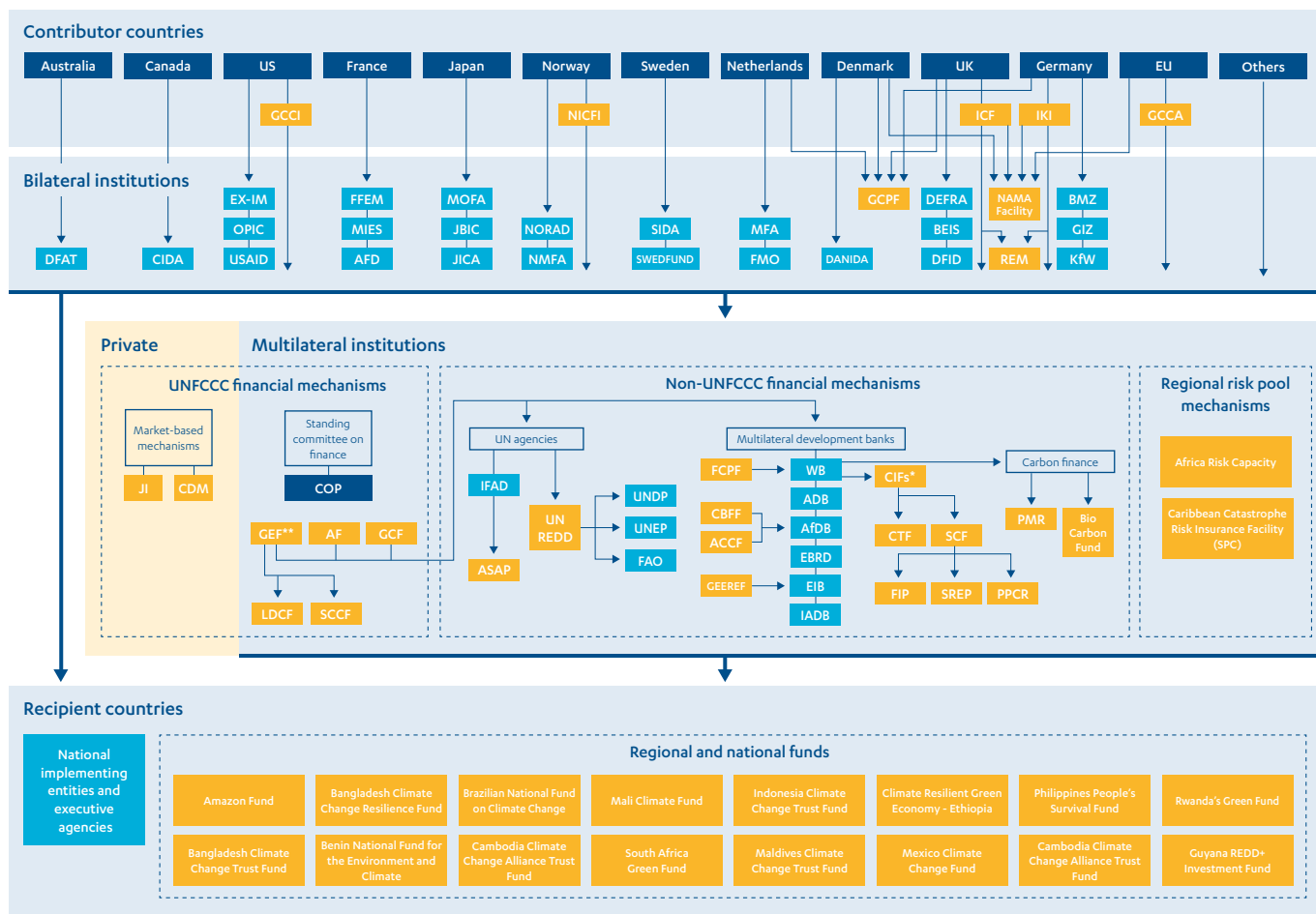
Low-carbon development	There is no global definition of low-carbon development, but it is generally understood to involve activities that promote inclusive economic growth while also slowing the pace of climate change.
Mitigation	In the context of climate change, a human intervention to reduce the sources or enhance the sinks of greenhouse gases. Examples include using fossil fuels more efficiently for industrial processes or electricity generation, switching to solar energy or wind power, improving the insulation of buildings and expanding forests and other 'sinks' to remove greater amounts of carbon dioxide from the atmosphere.
Multilateral	Multilateral programmes are executed through multilateral delivery partners such as development banks or UN agencies, either through a core contribution from the donor or through funds earmarked for specific objectives.
Nationally Appropriate Mitigation Action (NAMA)	NAMAs refer to any action that reduces emissions in developing countries that is prepared under the umbrella of a national governmental initiative. They can be policies directed at transformational change within an economic sector or actions across sectors for a broader national focus. NAMAs are supported and enabled by technology, financing and capacity building and are aimed at achieving a reduction in emissions relative to 'business as usual' emissions in 2020.
Nationally determined contributions (NDCs)	NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. The Paris Agreement (Article 4, paragraph 2) requires each party to prepare, communicate and maintain successive NDCs that it intends to achieve. Parties shall pursue domestic mitigation measures with the aim of achieving the objectives of such contributions.
United Nations Framework Convention on Climate Change (UNFCCC)	Signed at the Rio Summit in 1992 by over 150 countries, this sets an overall framework for intergovernmental efforts to tackle the challenge posed by climate change. Its ultimate objective is the "stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system". The Convention now enjoys near universal membership, with 196 parties.

Annex 2 The 2014 theory of change for UK spending on climate change



Source: International Climate Fund Theory of Change, International Climate Finance, 2014, unpublished.

Annex 3 An interpretation of the climate finance architecture



* The CIFs are administered by the World Bank. ** GEF serves as secretariat for all the non-market UNFCCC funds except the GCF.

Note: The schematic is indicative and does not capture all countries, climate funds and initiatives.

Source: Adapted from the Overseas Development Institute and Heinrich Boell Foundation, 2016, [link](#).

Implementing agencies and institutions		JICA	Japan International Cooperation Agency	CTF	Clean Technology Fund
ADB	Asian Development Bank	KfW	Kreditanstalt für Wiederaufbau	FCPF	Forest Carbon Partnership Facility
AFD	Association of Foreign Banks	MFA	Ministry of Foreign Affairs (Netherlands)	FIP	Forest Investment Programme
AfDB	African Development Bank	MIES	Inter-ministerial Taskforce on Climate Change	GCCA	Global Climate Change Alliance
BMZ	Federal Ministry of Economic Cooperation and Development (Germany)	MOFA	Ministry of Foreign Affairs (Japan)	CCCI	Global Climate Change Initiative
BEIS	Department for Business, Energy and Industrial Strategy	NORAD	Norwegian Agency for Development Cooperation	CCF	Green Climate Fund
CIDA	Canada International Development Agency	NMFA	Ministry of Foreign Affairs (Norway)	GCPF	Global Climate Partnership Fund
DANIDA	Danish International Development Agency	OPIC	Overseas Private Investment Corporation	GEEREF	Global Energy Efficiency and Renewable Energy Fund
DEFRA	Department for Environment, Food and Rural Affairs	SIDA	Swedish International Development Cooperation Agency	GEF	Global Environment Facility
DFAT	Department of Foreign Affairs and Trade	SWEDFUND	the Swedish Development Finance Institution	ICF	International Climate Fund/Finance (UK)
DFID	Department for International Development	UNDP	United Nations Development Programme	IKI	International Climate Initiative (Germany)
EBRD	European Bank for Reconstruction and Development	USAID	United States Agency for International Development	JI	Joint Implementation
EIB	European Investment Bank	WB	World Bank	LDCF	Least Developed Countries Fund
EX-IM	Export-Import Bank of the United States			NAMA	Nationally Appropriate Mitigation Actions
FAO	Food and Agriculture Organization			NICFI	International Climate and Forest Initiative (Norway)
FFEM	French Facility for Global Environment			PMR	Partnership for Market Readiness
FMO	Netherlands Development Finance Company			PPCR	Pilot Program for Climate Resilience
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit			REM	REDD Early Movers
IADB	Inter-American Development Bank			SCCA	Special Climate Change Fund
IFAD	International Fund for Agricultural Development			SCF	Strategic Climate Fund
JBIC	Japan Bank for International Cooperation			SREP	Scaling Up Renewable Energy Program
				UN REDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation

Annex 4 Key performance indicators of UK International Climate Finance

Key performance indicators	Low-carbon development relevance
1. Number of people supported by ICF programmes to cope with the effects of climate change	
2. Number of people with improved access to clean energy as a result of ICF programmes	✓
3. Number of forest-dependent people with livelihood benefits protected or improved as a result of ICF support	
4. Number of people with improved resilience as a result of ICF support	
5. Number of direct jobs created as a result of ICF support	
6. Change in greenhouse gas emissions as a result of ICF support	✓
7. Level of installed capacity of clean energy as a result of ICF support (MW)	✓
8. Number of hectares where deforestation and degradation have been avoided through ICF support	
9. Number of low-carbon technologies supported (units installed) through ICF support	✓
10. Value of ecosystem services generated or protected as a result of ICF support	
11. Volume of public finance mobilised for climate change purposes as a result of ICF funding	✓
12. Volume of private finance mobilised for climate change purposes as a result of ICF funding	✓
13. Level of integration of climate change in national planning as a result of ICF support	
14. Level of institutional knowledge of climate change issues as a result of ICF support	
15. Extent to which ICF intervention is likely to have a transformational impact	✓
16. Net change in energy consumption (MWh)	✓



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