

International Development Committee

Oral evidence: UK aid for combating climate change , HC 1432

Tuesday 12 February 2019

Ordered by the House of Commons to be published on 12 February 2019.

[Watch the meeting](#)

Members present: Stephen Twigg (Chair); Richard Burden; Mr Nigel Evans; Mrs Pauline Latham; Chris Law; Mr Ivan Lewis; Mark Menzies; Lloyd Russell-Moyle; Paul Scully; Mr Virendra Sharma; Henry Smith.

Questions 104 - 158

Witnesses

I: Colin Buckley, Chief Operating Officer, CDC, and Joelle Jenny, Director, Joint Funds Unit, National Security Secretariat.

II: Dr Helena Wright, Senior Policy Adviser, E3G, Neil Bird, Senior Research Fellow, Overseas Development Institute, and Dr Angela Falconer, Associate Director, Climate Policy Initiative.

Examination of witnesses

Witnesses: Colin Buckley and Joelle Jenny.

Q104 **Chair:** Good morning and welcome. This is an oral evidence session as part of our inquiry on combating climate change. We have two panels today, our first panel for half an hour and then a second panel. We are seeking to cover five questions with you over the next 30 minutes. Let me kick off with a question for Colin from CDC. Can you tell us what changes CDC has made to investment since climate change was adopted as one of your four key policy commitment areas?

Colin Buckley: Climate change is central to CDC strategy and, without question, it is the most important development challenge that faces this generation. It affects everything that CDC holds dear and everything that we have tried to accomplish: poverty alleviation, improving the role of girls and women, economic growth, building a sustainable world. CDC is playing a critical role in facing that challenge.

Although climate change has always been critical to our work, the effects of the 2017 strategy have been immediate and profound. In it, as you mentioned, we made climate change one of our four strategic initiatives. As a result, in 2017 and 2018, we committed over \$500 million to renewable energy. That represents some 25% of our commitments in those two years, up from 5% in 2016.

The effects are more than simply that headline number. For example, the Catalyst portfolio, which came out of a recommendation from this Committee that we take higher-risk investments for impact, has let us invest in off-grid solar, including a company called M-Kopa, a business in Uganda and Kenya that provides rural users with electricity to let them better study for school, provide lighting for their homes and reduce combustion cooking, the smoke of which is equivalent to smoking two packs of cigarettes a day.

The other big theme of that strategy that affects climate change is mobilisation. I know Professor Fankhauser was here and spoke at length about the importance of moving the private sector into solving the problems of climate change. Ayana, a renewables platform in India, is a good example of how we are translating our focus on mobilisation to climate change. We set that up as a platform rather than a direct investment to make room for the private sector to invest alongside us, and we hope shortly to close on a transaction that would bring \$100 million of private sector capital alongside us to invest in renewable energy in India.

Q105 **Chair:** Those are very positive examples. More generally, when you are carrying out investments that might not have a primary focus on climate change or renewable energy, do you have something similar to DFID's smart rules, in terms of achieving some climate screening?



Colin Buckley: We believe that every investment we make can be a climate investment. The approach we take to each one of our investments is to consider the risks and the opportunities in that investment as they relate to climate change. We have developed internal guidance that gives us a framework for each one of our priority sectors, which would be equivalent to DFID's approach around screening.

If there are climate change risks, we will seek to mitigate them through the adoption of low-emission technologies or plans for resilience. An example of that might be Owendo port in Gabon, where we worked to help redesign the port to make it more resilient to rises in sea levels that may occur because of climate change.

We also look for opportunities. There is often an upside for any one of our investments in climate change. We might shift construction plans to EDGE certification, which is a greener approach to construction, or we might use some of our funds from the resource efficiency fund to fund solar panels on the roof or to fund water recycling. In those ways, we can have energy savings and reduce emissions by anywhere in the order of 30%.

Q106 **Chair:** When you are investing in a fund, what consideration do you give to the whole of the portfolio of that fund and its overall climate impact beyond the specific projects that you yourself are supporting?

Colin Buckley: When we invest in a fund, the fund does not at that time have a portfolio of investments. We focus on making sure that the fund is investing in a way consistent with our own approach to direct investing. We do that in a number of ways. We have a toolkit for fund managers that includes how we consider risks and opportunities around climate change. We have an environmental team that goes out actively and educates fund managers in our approach. A lot of that is a pull model. We also insist that they comply with our approach on coal, on heavy fuel oil and so forth.

Chair: We will come back to some of those specific issues. Thank you very much.

Q107 **Paul Scully:** I will turn to Joelle with a similar line of questioning about the Prosperity Fund, what climate considerations are made and how money is spent.

Joelle Jenny: Good morning. The Prosperity Fund, as you are aware, has its primary purpose to contribute to the sustainable development goals and primarily goal 8, which is around sustainable economic growth. That is the primary purpose. It is not environment or climate change.

That being said, the fund has a very good story to tell in its contribution to various aspects of both adaptation and mitigation. There are many programmes that target, either directly or indirectly, aspects of climate action. In the direct examples, we have programmes such as the Green Growth Equity Fund, which supports investment in green finances in



India. That is entirely about aspects of climate action. Others, such as the Centre for Global Disaster Protection, which helps countries increase their resilience to manmade and natural disasters, also make a significant impact.

There are programmes that are about decreasing access to market and increasing regulatory frameworks in the energy sector. Those programmes make a significant impact in supporting the transition to low-carbon energy. But, as I said at the outset, the primary objective is to support the delivery of the SDGs, and the fund is one among a number of instruments across Government.

We are very careful that the fund should complement other instruments, such as the International Climate Fund, which is led by BEIS and DFID. We are very careful that we do not duplicate what the ICF does. We operate, for example in India, in close complementarity with some of the programmes that the ICF does. When you look at the impact of the Prosperity Fund on climate action, it is partly direct and it is partly indirect in being an enabler that works with the rest of Government in a whole of Government approach.

Q108 Paul Scully: Would you be proactive in using a similar sort of thing to the DFID smart rules to look, whether it is direct or indirect, at what you are doing and how you are going about it?

Joelle Jenny: We are using DFID systems or very similar to DFID approaches to the whole programme cycle, from design to monitoring and evaluation, which is very closely aligned. We do not currently measure direct climate-related action, because this is not the primary objective of the fund. But where appropriate, for example in any programme that has to do with infrastructure, there is a component where we are very adamant that both the design and the implementation have to take account of transition to low-carbon objectives, being mindful of not having a detrimental impact on the environment.

As you will recall, SDG 8, which is the main one, is about sustainable economic growth, so everything in which we measure this primary objective of supporting sustainable economic growth has to be about making sure it does not have a detrimental impact on natural resources and viability for future generations, alongside other criteria that are part of this definition of sustainable economic growth, such as inclusivity and addressing inequalities, that are also being measured. The short answer is that we do not exactly measure the climate impact, but it is a subset of delivering what the fund's objectives are.

Q109 Paul Scully: You are basically doing things that are not having a negative effect on the environment, but it does not necessarily follow that you are having a positive effect on tackling climate change or anything like that. I think that is what you are saying.



Joelle Jenny: It is both. In the energy sector, it is very clear that the programmes are there to support the host Government's strategies towards low-carbon transition. Making the regulatory framework more efficient, supporting green financing and making sure that infrastructure is contributing to the transition to low carbon and meeting the Paris agreement targets are all built into this overall focus of the programmes, particularly those in the energy sector and, indeed, the infrastructure sector, where the UK has a really good story to tell.

We use the fact that the UK has led the world internationally in demonstrating that you can decouple sustainable economic growth, as this country has sustained, from negative climate action. The UK has developed significant expertise in regulation, in clean technologies. Through pursuing the secondary benefits of the fund, we are tapping into that expertise and credibility in order to help recipient Governments in middle-income countries, which are the ones that are most likely to contribute to increasing carbon emissions. It is helping them manage their international commitment under the Paris agreement and helping them achieve this transition to low-carbon economic growth.

Q110 **Paul Scully:** Is there anything more that you could and maybe should want to do, in order to mainstream climate change across the whole of the Prosperity Fund?

Joelle Jenny: We had a discussion at the level of the Prosperity Fund board at the end of last year, where we were reflecting upon this. Is there in the energy sector, which is the most relevant to climate action in the portfolio, a way for us to more systematically measure and track low-carbon targets? This discussion is ongoing. As you know, the fund is fairly new, so we are still adapting and improving it. Many of the activities have not yet been entirely defined, because the fund is now entering its real implementation phase. As we are looking to that, we are assessing whether those programmes in the energy sector could be more systematically measured for their contribution to delivering the Paris agreement.

Q111 **Mr Virendra Sharma:** I have my own interest in the Indian side. In your view, how successful have we been at achieving our goals in India in the last, say, three years?

Joelle Jenny: The programme being fairly new and entering the inception phase, it is early to give you solid evidence of what we achieved through the Prosperity Fund, but the initial indications are very promising. For example, we have had joint workshops where experts have come together to look at the evidence of what the UK has done, which then feeds into guidance and policies that are being developed by the Indian Government. We have good, encouraging initial evidence. There is a strong interest in terms of our contacts and our engagement with the Government, so there is every reason to be optimistic.

Q112 **Mrs Pauline Latham:** Could you both tell us what proportion of your



HOUSE OF COMMONS

ODA spend is spent on low-carbon and renewable energy products? Maybe you could give us a brief example.

Joelle Jenny: No, I cannot give you a proportion, because we are extremely careful not to measure what the fund has not been set up to measure, in the sense that the primary objective is sustainable economic growth. At the moment, we do not have a way in which I can give you an exact percentage of how much the fund contributes to low carbon.

Q113 **Chair:** Can you give us a rough idea?

Mrs Pauline Latham: It is the ODA spend.

Joelle Jenny: The fund is about 97% ODA, so the vast majority of what the fund spends is ODA. There are quite a few programmes that have a carbon transition element to them. There are a number for which we are absolutely sure, like the Green Growth Equity Fund, which is £120 million. That is 100% ODA and 100% counts towards the climate targets. There are others, such as the Global Future Cities Programme and the Centre for Global Disaster Protection, that have components that are about adaptation to climate change. We have six energy programmes that are about transition to low-carbon economic growth. All of those have a percentage that contributes, but the exact measuring is something that is still being developed.

Colin Buckley: At CDC, 25% of our commitments in 2017 and 2018 were in renewable energy. As for examples, I have alluded to Ayana, this Indian renewables platform, and M-Kopa, the off-grid solar. Another one might be Nubian Suns, a breathtakingly vast farm of solar panels in the middle of the Egyptian desert, which is planned to bring clean energy for about 350,000 people. Another one that I know this Committee is aware of is the small hydroelectric project that we did in Virunga park in DRC.

Chair: We were very impressed by that.

Q114 **Mrs Pauline Latham:** Very impressed, yes. Could you tell me how confident you are that your investments in renewable energy are reaching the poorest people?

Colin Buckley: When we make renewable energy investments, it is not only the climate change aspects that we are looking at. We are also looking at access to energy and affordability. M-Kopa is a great example of where we are working at the lower end of affordability with off grid solar, but that cannot be the only solution. You also want to have national grids, fuelled by inexpensive renewable energy, that can access as much as the country as possible.

Every time we make an energy investment, we are trying to work towards the broadest access to energy that we can get. Many of the aspects of affordability and of the extent of the grid are ones of public policy for the country we are working with, but as partners we are always



pushing them to make those grids as large as possible and to reduce the price of energy as far as possible.

Q115 Mrs Pauline Latham: Are your projects reaching the poorest people?

Joelle Jenny: Absolutely. This is absolutely central to the design of the programmes. The primary objective has to be poverty reduction. If the programmes do not meet the overseas development aid criteria, they simply do not proceed through the design phase.

I can give you examples. I was in Colombia very recently looking at some of the programmes on the ground that work, for example, to help smallholders, coffee growers or cacao planters get better yields for their crops, which at the same time contributes to economic growth and prosperity, helps the smallholders get more security of income, and contributes to environmental preservation by supporting improved agricultural practices.

This is just one example, where not only did I see what it does concretely for poor people on the ground, but it was really striking how those programmes complement what BEIS is doing with the International Climate Fund. The different instruments are working together to help the country, which is going through a transition where, because of the end of the war, there is a big risk of deforestation, but you have to ensure employment for the former guerrillas from the FARC if you want peace to be lasting. We use all the different instruments, the Prosperity Fund, the CSSF—the Conflict, Stability and Security Fund—and the work that BEIS and DFID do with the ICF, to address the stability of the country, giving decent employment to people so they do not go back to war, and at the same time to ensure this is done in a way that prevents the highest risk of deforestation.

This is where measuring the impact of the fund cannot be done simply by measuring what percentage of our ODA directly contributes to climate action, without considering how we work alongside the other instruments of Government to have a whole of Government approach that delivers those objectives.

Q116 Mrs Pauline Latham: Colin, will the proportion of the climate-related investment remain consistent as DFID's funding to you gets larger?

Colin Buckley: I am sorry. What percentage?

Chair: Will the percentage remain constant with the quantum going up?

Colin Buckley: Our approach is that we want to do all the renewable energy investments we can in our geographies, consistent with our environmental restrictions. The number of those is not entirely in our control. Much of it has to do with the countries. We have seen a dramatic step up. Our aspiration is to see that number, frankly, go up, but I could not predict for you exactly where it will end. Without question, we will do as much as we can.



Q117 Chris Law: The poorest communities on earth are the most directly affected by climate change. As you will have seen in the IPCC report, there is less than 12 years to change that trajectory. However, I wonder what you could both say to me about taxpayers' money continually being spent on fossil fuel projects by both your funds, and in those very same poor communities. I wonder what your message would be to those poor communities about that.

Joelle Jenny: The message is very clear. Even under the 1.5 degree scenario, the IPCC recognises that oil and gas will continue to be part of the energy mix that is required for countries to achieve sustainable economic growth. The message is very clear: we will not prevent you from achieving economic growth that is sustainable. On the contrary, we will work with you and with your Government to support your transition towards the sustainable economy that, as I mentioned earlier, the UK is a very good example of achieving. We can and we have decoupled economic growth from environmental negative impacts. This is how we are working with the Governments in those countries to ensure they manage this transition to a low-carbon economy in a way that will benefit the poorest as well.

Colin Buckley: For us, we will only do a fossil fuel investment where it is consistent with the nationally determined contribution and represents a step forward to a low emissions future. Let me give you two examples that explain what that means.

One example is Azito, a natural gas power plant in the Ivory Coast, where our investment went to shifting the power plant to a new technology that resulted in 50% more power, with no increase in emissions and no increase in fuel. That is the equivalent of saving 400,000 metric tonnes of CO₂ emissions a year.

Another slightly different example would be our investment in Tè Power in Guinea. Guinea is an extraordinary country. Only 28% of people in Guinea have any access to energy, and those few who have it experience sporadic electricity subject to brownout and blackout, which means, if you are a welder, your welding machines will shut down. You will turn on the kerosene generator, which is one of the dirtiest emitters around. When that ends, you and all of your staff will go home and probably make no money that day.

Guinea has a promising future, because in 2022 a hydroelectric dam comes online that will be able to provide a lot of clean energy. Partnering with the Government, we provided an interim power solution that bridged the gap between today and 2022, so that the Government could begin to set up a national grid, and connect businesses and people to that grid. Why did we do that? We were prepared to fund an interim solution that would come offline in 2022, where others would have insisted on a longer-term solution that could have committed Guinea to a fossil fuel future. Those are the types of investments in fossil fuel that we are



HOUSE OF COMMONS

willing to make, but they are very few. Under this strategy, it has only been 4.2% of our commitments.

Q118 Chris Law: On that point, you could maybe enlighten me a bit, because I see you are funding money to China for fracking and capacity building for unconventional gas, which all of this Committee and those listening today will be a bit shocked at. How can you tell me that is a transition? In China, they have one of the largest hydro dam projects in the world.

Colin Buckley: The investments you are referring to were made before 2012 and before our last two strategies. We do have some fossil fuel investments in our legacy portfolio. We are naturally divesting from those. Those funds are coming to the end of their life and they will return the money to us. We would expect all of those legacy investments to be out of our portfolio shortly.

Chris Law: Is it a similar pattern that we expect to hear from the Prosperity Fund?

Joelle Jenny: The support we are giving in China in that sector is for a transition towards a low-carbon economy. China currently produces 30% of the world's CO₂, mostly through coal. The transition out of coal is absolutely critical to achieving the Paris agreement and that is the focus of every aspect of the energy programme that we have in China. We do not invest any support in oil and gas extraction or exploration anywhere around the world. The only small programmes we have are in the spirit of supporting the transition towards less damaging sources of energy. This is being kept under continuous review by the portfolio management board, and we are open to seeing in future whether this is to continue or to be terminated.

Q119 Chris Law: We will drill down a bit into numbers, if we can. What proportion of spend from both your organisations supports the use of fossil fuels, both directly and indirectly? If you could very quickly give me a couple of examples, that would be great.

Chair: Can we have one example each, please?

Joelle Jenny: We do not have a proportion of spend.

Q120 Chris Law: You do not know how much you spend on fossil fuel projects.

Joelle Jenny: No, it is very small. I do not have a proportion.

Q121 Chris Law: Could you possibly submit that in writing later on?

Joelle Jenny: I do not believe that we can provide those numbers, for the precise reason that the portfolio is still being designed. I could not tell you now that we have agreed the portfolios as a whole. Many of the activities, particularly for the global programmes, are still in the design phase.

Q122 Chris Law: I would like written evidence, primarily because you talked



HOUSE OF COMMONS

about SDG 7 on clean energy and SDG 13 on climate change as very important. That is why I would like to get these numbers. Does CDC have a percentage?

Colin Buckley: Yes. Our commitment to fossil fuels under the 2017-18 strategy was 4.2%, which compares to 13% in 2016, the year before we adopted the climate change strategic initiative.

Q123 **Chris Law:** Could you both tell me what assessment has been done on the carbon footprint and potential climate impact of your spends? Has there been any assessment made?

Joelle Jenny: Of carbon footprint specifically, no. Every programme that is active in the energy sector is being assessed for its environmental impact, but specifically for carbon footprint I would need to check whether we have that. I do not.

Q124 **Chris Law:** Do you have any measures of the potential impact on climate or any other measures that you use?

Joelle Jenny: Each of the programmes active in the energy sectors will be making an assessment of its impact on sustainable growth, but we do not have at the moment specific indicators on carbon footprint.

Colin Buckley: We assess the carbon footprint of all our power and carbon-intensive assets. Then that forms part of our due diligence and we monitor that footprint through the life of the investment. For investments that are not power or carbon intensive, we find it more efficient and effective to instead focus on the quantum of energy savings that we can have.

Q125 **Chris Law:** What assessment has been done as to the relative value of these projects against those that support or use cleaner alternatives? Has there been a comparative analysis?

Colin Buckley: In every power investment that we make, a large part of the due diligence is assessing our investment against alternatives. I made reference to Azito, the natural gas plant. A big part of why that was a shift to high technology came out of our activist position to move it to the lowest emission possible. That is a key part of our due diligence, to assess it against alternatives.

Q126 **Chris Law:** If I can continue this, please, is any of your spend on fossil fuels aimed at reducing emissions? I know you talked about the transitional period in Guinea, but I notice here you gave a £29.5 million loan for a heavy fuel oil plant, which is one of the most carbon intensive.

Colin Buckley: That is the Tè Power plant that I spoke about in Guinea, which is a unique circumstance. Guinea does not have any natural gas, so the alternative, going back to your previous question, to having heavy fuel oil would have been kerosene. Given that it was for a short period and the alternative is kerosene, we concluded that it made sense to make that investment. It is incredibly rare.



HOUSE OF COMMONS

Q127 Chris Law: Are there areas in which either of your organisations are spending money and investing in fossil fuels right now in order to replace heavier fossil fuels that are more carbon intensive? Do you have examples of that?

Chair: Colin gave us an example earlier. Does Joelle have any examples?

Joelle Jenny: I would like to clarify that most of what the fund does has to do with the regulatory environment. It is working with Government to help them have more efficient energy markets and create the incentive for green financing. We know that there will not be sustainable growth that is environmentally friendly unless you change the incentive for financing in order to make it attractive to have capital investment in technologies that will be environmentally sustainable. That is the primary focus. That is most of the delivery.

I cannot easily measure the carbon footprint impact of changing the regulatory environment in India, China or Brazil. We cannot easily find the kind of indicators that would satisfy this particular box, but that would not be true to what the fund is designed to deliver, which is primarily sustainable, inclusive growth.

We have a number of criteria when we look at a programme. I have already mentioned that it has to meet the criteria for overseas development aid. That is the primary benefit. In terms of the additional criteria, we measure factors such as inclusivity and support for equality. We are measuring whether this will be within planetary resource constraints, so that is an explicit criterion when we are looking at the sustainability of the economic growth that is being generated. We are looking at whether it is going to be self-financing. There is a range of criteria that are used to select programmes, but we are primarily supporting the business and regulatory environment, and setting the incentives that will ultimately have a significant impact on climate action.

Q128 Henry Smith: One of the drawbacks of having the last question of this part of the session is that you have developed a lot of the arguments I was going to ask about. Yesterday, members of the Committee had the benefit of meeting with a senior member of the Met Office about climate change modelling. We discussed Paris and the decoupling. To both CDC and the Prosperity Fund, we have heard a lot about your reduction in the use of fossil fuels, and you have given a number of very interesting examples. When do you see yourselves, in terms of a timeline, no longer needing to invest in fossil fuels at all, and even stepping down certain countries and areas from heavy use of fossil fuels to less harmful use of fossil fuels? Is there any sort of timeline, say over the course of the next decade?

Colin Buckley: The answer is really technology and the scale of technological advance. The amount of renewable investing that we can do now is really an outcome of the technological advances of the last five to 10 years. The idea of making solar farms in Egypt would have been



HOUSE OF COMMONS

incomprehensible 10 years ago. The most important technological advances that we need are really in battery technology. As we refine and deepen our climate change strategy, one of the first things we are going to focus on is what we can do around battery technology. If we could crack the battery technology issue, you could see a dramatic and very rapid switch from fossil fuel to renewables, especially in our geographies, which are not committed to a fossil fuel economy. You could see a leapfrogging over fossil fuels in our economies.

Joelle Jenny: For the fund, I need to caveat my response with the fact that the fund is currently designed for this spending period, so I do not know what the fund will be doing—

Q129 **Henry Smith:** How long does this current spending period go on for?

Joelle Jenny: Currently, it is projected to 2021. There is a possible extension over a couple of years to finish, so we will have to see how it goes. The focus of the programmes is, as I said, on environmental regulation, green growth, incentivising more green markets. We do support technology development and piloting in some programmes, for example in Brazil. We constantly monitor whether we should be reviewing the balance of the portfolio and there is a question around fossil fuel that needs to be considered.

Q130 **Henry Smith:** I have one quick supplementary, again to both of you. If you could pick out one impediment to further reducing reliance on fossil fuels in the projects you are funding, what would it be?

Colin Buckley: As I have already mentioned, it is battery technology. That is absolutely transformative.

Joelle Jenny: From an economic growth perspective, I am hesitant to give an answer because I am not an expert, but I would say that having the right regulatory incentives and frameworks in place is going to be critical to success.

Henry Smith: In the geographies and countries you are working in.

Joelle Jenny: Absolutely.

Q131 **Chair:** Thank you both very much indeed for your evidence this morning. Please feel free to stay if you wish to hear the second panel.

Examination of witnesses

Witnesses: Dr Helena Wright, Neil Bird and Dr Angela Falconer.

Chair: Welcome. We have eight areas that we will seek to cover with you over the next 45 to 50 minutes. I am going to go straight to Ivan. Please introduce yourselves when you first answer a question.

Q132 **Mr Ivan Lewis:** Good morning. My first question is to Angela. Is



international climate finance getting, in your view, to where it is most needed, in terms of both reaching those most in need and supporting the right sectors? As the UK, what do you think our most effective and efficient contribution ought to be?

Dr Falconer: Thank you for the opportunity to be here today. My name is Angela Falconer. I work for Climate Policy Initiative, an analytical research organisation focused on supporting Governments, businesses and financial institutions in the transition to a low-carbon, climate-resilient future and addressing SDGs. We are active on the ground in India, Indonesia, Kenya, Brazil, and we have a presence in the UK and the US.

From the work we have been doing, we have compiled the most comprehensive overview of global climate finance flows, including public and private finance to developing and developed countries. We can see a lot of good news in terms of global climate finance. It is increasing dramatically year on year from when we first started to track. In 2012, we had \$360 billion of global climate finance and, in the latest year of data that we have available, we are up to \$520 billion. These significant increases are in part due to data improvements. We are getting more organisations reporting on what they are spending on climate finance, but they are also due to underlying increasing activity in different sectors and by different actors.

From the previous panel, we have seen lots of increases, particularly in renewables and other technologies, with the cost of renewables coming down. We can see increases in sustainable transport investments as well, at an impressive rate, with spending on electric vehicles going up 54% year on year.

Multilateral development finance institutions and funds are contributing a large percentage of that, at about 10% of global climate finance flows. The MDBs have significant targets in place, which they are on good track to meet. They have targets between 25% and 40% of their overall portfolios going towards climate finance activities. They are already, in 2017, three-quarters of the way to those targets, and they are showing some increases in adaptation spending. Adaptation and resilience are particularly difficult areas. Among the multilateral actors, there have been increases in the last two years of 30% in spending on adaptation, so that is the good news.

The bad news is that there is a high focus on renewables sectors. The more difficult sectors are showing very little investment, far from the need. For example, land use for agriculture and forestry is a very difficult area. We can see only \$4 billion being spent annually, a very small proportion of overall spending, although the agriculture and forestry sector amounts, depending on how you calculate it, to one-quarter of global emissions, increasing going forward.



Another difficult area is sustainable energy access. A lot of progress is being made in that area, but when you look down at the detail of where the progress is being made it is more challenging. In order to meet SDG 7, universal energy access, estimates show that we would need 95% of spending to go to sub-Saharan Africa, but we are seeing 17% of spending going to sub-Saharan Africa.

Other challenging areas are around energy efficiency and adaptation, as I mentioned. It is very difficult to measure private adaptation spending, but on the public side we have pretty good information. We see only \$22 billion of that \$520 billion globally being spent on adaptation, which is way below what is needed. The UN gap report shows that we need almost \$300 billion per year by 2030 to be spent on adaptation. These are some areas for focus.

Geographically, sub-Saharan Africa and Latin America are showing small amounts of the overall totals of spending. In the latest year, only \$12 billion has gone to sub-Saharan Africa and 6% to Latin America, so there is a need for increases there.

Chair: It is quite a long answer.

Dr Falconer: You asked about what improvements can be made and how to be more effective. Maybe I can come back to that afterwards, but focusing on innovative ways to blend finance can be a key way.

Mr Ivan Lewis: What about the United Kingdom?

Dr Falconer: We do not do a detailed assessment of what the UK is spending. We would like to do it, but my colleagues can contribute some responses there. There is a good balance between mitigation and adaptation spending, and a very good mix of approaches, with contributions to multilateral funds and large transformative approaches, as well as to more innovative blended finance vehicles, which we have also been involved in.

Q133 **Chris Law:** Neil, do you agree that the UK has done all it can to balance adaptation and mitigation financing? Is the balance of resourcing between middle-income and lower-income countries appropriate?

Neil Bird: Thank you very much. My name is Neil Bird. I am a senior research fellow at ODI, the Overseas Development Institute, here in London. The question of balance is a critical one. It is an indefinite term, particularly as it applies to relevant investments for those two different strategies of mitigation and adaptation. Let me give you an example from the Climate Investment Funds, of which the UK is the largest funder, with over \$2 billion of UK public money going into those funds.

In the Climate Investment Funds, approximately 60%, \$4.7 billion out of an \$8 billion fund, is going into the Clean Technology Fund. That fund readily absorbs large amounts of capital to support the transition to a clean energy future, which is something you were talking about earlier.



Equally, the Climate Investment Funds has invested \$1.2 billion in its Adaptation Fund, the window for adaptation. That money has been invested in worthwhile, first-of-a-kind projects. The point I would emphasise is that it is not only a matter of quantity of funding; it is quality of spend.

Q134 Chris Law: To remind you of the question I was asking, has the balance between middle and lower-income countries been appropriate?

Neil Bird: Again, I can speak most directly to the Climate Investment Funds, because we have been looking at the experience of that important fund over the last year. There is a dedicated funding window in the Climate Investment Funds for the scaling up of renewable energy in low-income countries, which is a focused effort to support improved energy access in low-income countries. From a strategic perspective, that balance between support to middle-income countries and support to low-income countries appears to reflect where best immediate gains can be had.

Dr Wright: I am Helena Wright from E3G, a global environmental think-tank based here in London. To answer the question around adaptation and mitigation balance, there has been a roughly equal split in the UK's portfolio over the last two years for which data is available, 2015 and 2016, with a very small amount of funding going to cross-cutting objectives as well.

I would make the point that we may not need to see these as individual silos of investment, because to meet the Paris climate goals we need to be mainstreaming both adaptation and mitigation across the UK's overseas spending and aid portfolio. It might be a bit of a red herring to focus on this. Looking at the IPCC report, we know that there are limits to adaptation. If we reach 3 or 4 degrees of warming, it really will not be possible to adapt in many communities.

Q135 Mr Nigel Evans: To achieve what we need to achieve as far as renewables are concerned, it is going to need a colossal amount of money. The public sector simply will not be able to do this on its own. You are going to have to leverage money from the private sector. How successful is this, at this moment, in attracting private money?

Dr Falconer: Leverage factors is a topic that we work on a lot in our organisations: for your dollar investment of public money, how much private investment do you leverage? Looking at the six largest MDBs, to which the UK is contributing, they most recently reported in 2017 that, for their \$35 billion investment in climate finance from the public sector, they are leveraging \$51 billion in private.

As that number goes up, it is not necessarily a positive case, because you may start to crowd out the private sector. As renewables become more commercially competitive, as they are in many economies now, the public sector should be starting to step back and leave space for the private



HOUSE OF COMMONS

sector to come in, and moving those public resources to more difficult sectors, like land use, energy efficiency or transport.

Q136 **Mr Nigel Evans:** Is there a return on it for private money coming in? It has to be lucrative for the private money.

Dr Falconer: Working on those business models, and working out the return, is a key area of focus. Last year, we did some work for the Blended Finance Taskforce, trying to get at the issue of how to most effectively use public money and, where there are revenues, allow the private sector to come in and go forward. That gets more difficult in sectors like forestry, for example. Where the public sector can be more innovative is—instead of focusing on cost subsidy, low-cost loans or grants—to come in with more innovative mechanisms to cover risk. These are the kinds of risks that large institutional investors and commercial banks are facing, like currency risk, policy risk, lack of scale or off-taker risk. If you come in with guarantees, insurance or early risk absorption, this can enable the private sector to start to step into the riskier early-stage technologies or geographies.

Q137 **Mr Nigel Evans:** I was going to ask you about the inhibitors. Clearly, conflict would be one of them. We have seen in Africa some battery technology in a hospital, which was superb, but I should imagine, if you are looking at the DRC, it is going to be a lot riskier to invest there. What other inhibitors are there to the private capital coming in on climate change issues?

Dr Falconer: The governance risk is a large one for many private sector operators, but guarantees and technical assistance support to move into those riskier markets can be a key role for the public sector.

We have been working, with support from the UK Government, on an innovation lab, which develops new blended finance vehicles to mobilise private investment in riskier situations where the private sector is not yet active, developing those financial structures that can make the private sector feel comfortable to come in. After four or five years of operating, it has been very successful and it has now mobilised \$1.4 billion through its mitigation and adaptation projects. This is a nice example of something the UK is doing that is much more cutting edge and looks at all the different sectors, including riskier and more difficult sectors.

Q138 **Mr Nigel Evans:** Are there any examples where private money has come in and they have lost it because of conflict, bad governance or simply there being no return on the investment?

Dr Falconer: Yes, there are plenty of examples of that, unfortunately. We are working in Kenya just now, where we have heard of multilaterals coming in to support a wind project. They have got to the level where the wind turbines have been delivered to sites, but they have not been able to go forward with the project due to local governance issues and political unrest between different parties locally. There was a sovereign guarantee in place there, to protect the private sector. There are some examples of



where they have not been able to go forward, for sure, but those guarantees are important to even getting to that point.

Q139 Richard Burden: Could we move on to the multilateral development banks? Helen, perhaps I could ask you a bit about the research you have done in that area, which shows that, in 2015-16, some of them were investing almost as much in fossil fuels as they were in energy-related climate finance. We heard evidence before that it may not be practical for all sorts of reasons to eliminate investment in fossil fuels altogether, but where is the breakpoint? To what extent do you think investment in fossil fuels ends up undermining climate finance?

Dr Wright: This is quite a tricky area for the development banks to deal with, especially in countries where there is not a strong pipeline for renewable energy, but there is a high demand for energy and need for energy access. Those are some of the challenges. As Angela just mentioned, in some places there is not really a supply chain for renewables yet. This is an area where the development banks could play a pivotal role in unlocking those markets and enabling a leapfrogging over fossil fuels into a renewable energy system, in particular preventing the lock-in of long-term fossil fuel investments that will not be viable in future under a 2 degree scenario.

This is particularly a problem for gas investments, given that there is quite a limited role for gas if we look at a 1.5 degree scenario, well below a 2 degree scenario. That is the type of future we need to be aiming for if we are to avoid the most severe impacts of climate change on the most vulnerable communities on Pacific islands and coral reefs. There is definitely more the development banks could be doing, and some of them are making good progress in aligning their energy lending a bit better with the Paris agreement, so progress is being made. For example, the European Bank for Reconstruction and Development recently revised its energy lending criteria. The UK is a shareholder of that bank. It has now put in place a series of criteria to try to ensure that even gas investments are aligned with the NDCs of countries, so their Paris commitments. That is a positive step, I would say. Some of the other banks are also revising their criteria soon, so we may see further progress.

Q140 Richard Burden: As well as the absence in a number of countries of a feasible pipeline of renewable projects, what are the other challenges that inhibit the MDBs from doing more and altering that balance between fossil fuels and climate-related finance?

Dr Wright: There are often vested interests within countries. Another barrier is fossil fuel subsidies domestically within countries. There might be a policy environment that negatively affects the uptake of renewable energy. There has been positive work in some countries to try to enable a better environment. That is really crucial here.

Touching on the previous question about private finance being mobilised, that is really important in a lot of cases to get to scale. On that side, that



is a positive metric, but the drawback of that metric is that it is not the same as capturing impact. A lot of the investments that we need to unlock markets and renewables are capacity-building or technical assistance programmes that might not directly leverage the private sector, but they create an enabling environment for better investments throughout the whole economy.

Q141 Richard Burden: What do you think the UK could be doing, in terms of our influence on the boards of multilateral development banks, to try to change that balance a bit, to incentivise and support the kinds of changes you are talking about?

Dr Wright: The UK is playing an active role with some of the banks on the climate agenda, which is positive. Some of the banks are less focused at the moment on this topic compared to others. One of the useful examples I would mention is the UK's participation in the Powering Past Coal Alliance, together with the Canadian Government, which the UK has been co-leading. Through that, there has been some interesting work on trying to enable a transition within countries that are dependent on coal, because we know we need to rapidly transition away from coal.

Q142 Mark Menzies: This is to Helena. What is your assessment of the joint framework announced by the MDBs at COP24 to align their operations with the goals of the Paris agreement? Again, it is building on this point you have just made.

Dr Wright: That is a positive step. The development banks outlined a series of building block principles that they would try to integrate into their lending, for example adaptation, mitigation and climate reporting. That was recently announced at the last UN climate conference, but at the moment there is not too much detail within that framework. It is just a series of high-level principles. The next step towards that would be for the development banks to outline in a bit more detail what they mean with that framework, to enable it to be more robust and impactful and to drive transformation in line with best practices.

Q143 Mark Menzies: Do you think the framework goes far enough? With that in mind, do you think the development banks should adopt an emission reduction target?

Dr Wright: That is an interesting area. We have seen some banks, for example in the private sector, looking at that approach and setting portfolio emission reduction targets. We have also seen the Asian Development Bank committed to peaking its portfolio emissions. The Dutch development agency, FMO, has also said it will align its portfolio with a 1.5 degree trajectory.

I would say, though, it is quite a technical approach. For FMO, most of its investments are in the energy sector and in land use, where it already has an established methodology, but it is harder for other sectors to do this. Also, just accounting in terms of emissions does not really capture the full impact of projects.



It might be preferable for the development banks and other banks to lay out a roadmap for alignment with 1.5 degrees and identify strategic investments in areas that require investment. For example, we heard earlier about energy storage, which is an important one to note. There are other areas, such as electrification of the transport and heating system, land use and shifting diets away from high-carbon products. These are all quite tricky areas that could be considered more, but that we really need to see in order to stabilise the world's climate.

Q144 Mark Menzies: Does the framework suggest that the implications of the recent IPCC special report on 1.5 degrees have been fully internalised by the multilateral development banks? Are they responding with appropriate urgency?

Dr Wright: I do not think the implications of that report have been fully taken into consideration yet. As I mentioned before, there are various areas that not much investment is going into. We heard from Angela with regards to land use, but there are some other trickier areas, for example in transport with electric vehicles. We have not seen much work in that area yet within climate finance, but I think those are going to be quite critical, in terms of the 1.5 degree scenario.

Q145 Mark Menzies: Are there lessons that donor countries can learn from these types of frameworks, in terms of aligning their own overseas spending with the Paris goals?

Dr Wright: Yes, a lot can be learned from the positive examples we have seen over the past couple of years or so. There has been some really good progress from the development banks. One area I would point to, for example, is the IFC, which is the World Bank's private sector arm. It is trying to green its equity portfolio, which could be quite transformational, in requiring, for example, equity clients to report on their coal exposure. That example could be quite relevant to the CDC Group or for the UK, as part of the Powering Past Coal Alliance commitment, in helping to drive a green shift in the financial sector and implementing the recommendations of the Task Force on Climate-related Financial Disclosures, which was led by Mark Carney.

Q146 Paul Scully: Neil, you talked earlier on about the Climate Investment Funds, which you have had a lot to do with, in terms of investigating. You returned from the event in Morocco to mark their 10-year anniversary. What was the feedback from the recipient countries on the effectiveness of the CIF?

Neil Bird: In short, it was very good. A slightly longer answer is that, if you go back 10 years, there was a lot of uncertainty over what the Climate Investment Funds would contribute. There were particular concerns within civil society and in some recipient countries. One of the most vocal supporters of what has happened since that time was a representative from a small island development state in the Pacific, who



HOUSE OF COMMONS

saw that the investments made under the Climate Investment Funds had benefited the vulnerable people in his country.

Q147 **Paul Scully:** Bearing in mind your further research into it, do you think the UK contributions have therefore been well spent?

Neil Bird: As I said in my previous statement, the UK was the largest funder of the Climate Investment Funds. The UK took a global leadership position 10 years ago, ahead of the UNFCCC negotiations. The result of the investments made under the Climate Investment Funds, which the UK has monitored and contributed to the governance of, under the trust fund committees, across clean energy, energy access, adaptation, land use and sustainable forest management, has been significant. That result would not have happened were it not for the UK's commitment to the Climate Investment Funds.

Q148 **Paul Scully:** You talked about adaptation there. You referred to it before. We had evidence earlier on in our investigation criticising the CIF for giving significantly less funding to adaptation than mitigation. What would you say in response to that criticism?

Neil Bird: Funding is needed under different strategies at a level that can support transformation. As I said earlier, under mitigation strategies it is not that challenging to invest a large amount of capital to support the development of clean energy. Adaptation has always been a more problematic area, but, if you think back to 2008, there was no significant dedicated multilateral fund for adaptation. That was brought about by this Pilot Program for Climate Resilience. Just to give you a flavour of the impact, not only do we see co-financing appearing in mitigation, but we see the PPCR having achieved a co-financing ratio of 1:2, so it has doubled its money towards adaptation effects.

The other key area to note on adaptation specifically is the critical effort to mainstream adaptation into national development planning. Again, that has happened in a number of countries, such as Zambia, through this effort. Overall, the adaptation spend has been significant.

Q149 **Paul Scully:** Finally, Mark mentioned the 1.5 degrees report from the IPCC. What implications does it have for the working, specifically, of the CIF and how should it impact that?

Neil Bird: Currently, there are two major multilateral climate funds, the Climate Investment Funds and the Green Climate Fund. The point I would emphasise to you is that the UK has been a significant funder of both, with £2 billion going to the Climate Investment Funds and \$1.2 billion going to the Green Climate Fund. Both of those funds run out of money this year, 2019, without further funding support, so we are at a critical juncture. We have seen the evidence from the scientific community, the IPCC 1.5 degree report. Action is needed now. Action will be critical over the next 18 months, yet the funding of those two multilateral efforts is in doubt as of now.



HOUSE OF COMMONS

Q150 **Paul Scully:** It has not been taken on board effectively, then. At the moment those implications are not quite hitting home.

Neil Bird: At the fund level, there is a lot of innovation taking place, partly in response to the 1.5 degree report, but for those people, dare I say it, they already knew the extreme situation we were in. The real question for today comes back to who is going to support those funds, who provides the funding.

Chair: You have nicely taken us to our next question, which is from Henry.

Q151 **Henry Smith:** It certainly has nicely taken us to our next question. You mentioned the Green Climate Fund. This is primarily a question to you, Angela and Neil. In your assessments, how effective has it been in reaching the right people and supporting the right kinds of projects?

Dr Falconer: Back in 2016, we did work on the CIF, evaluating the effectiveness there. A lot of the lessons on what worked and what did not work from the CIF have been taken forward into the operations of the GCF. A lot of effort has been made to set up an investment framework for the GCF that supports the most impactful projects, supporting country ownership as well as impact in terms of emission reductions and resilience. There is still a lot more that can be done to improve the effectiveness and learn from the first years of operation, but significant progress has been made already.

Obviously, it is a challenging institution, with so many Governments involved in the decision-making. When you get down to the national level, one interesting aspect of the GCF that has been very useful is the readiness funding to support Governments to develop their investment pipelines. In my limited experience of several developing countries where I work, a lot of those funds have not been fully drawn down. The pipelines are still not fully developed, so it still seems that some experience from the CIFs, which did very well on the programmatic approach, with the investment programmes made in collaboration with developing country Governments, could be pushed a little more strongly in the GCF to have a technical approach that balances well the political challenges that exist in the constitution of the GCF.

Q152 **Henry Smith:** On that point, could the UK be doing more to influence the GCF board?

Dr Falconer: I am not aware of how the UK operates within the board at the moment, so I cannot comment.

Q153 **Chair:** Neil, are you able to comment on that?

Neil Bird: I will make two quick comments. I would contrast the GCF's project-based approach with the Climate Investment Funds' programmatic approach, which Angela referred to. It is still very early days to measure the impact of these investment funds, because they are



HOUSE OF COMMONS

so recent. The business model of the two funds is quite different. The Climate Investment Funds' business model remains a unique approach, having adopted a country-led programmatic approach.

The GCF board signs off on individual projects, where I would suggest a lower bar is applied of a no-objection statement from Government. We cannot tell whether those projects fit within the strategic vision of the Governments. With the Climate Investment Funds, countries have been supported to develop their own investment plans, which relate very much to their overall development trajectory.

Q154 Henry Smith: On the project approach, do you think the GCF is taking the right level of risk, in terms of the projects it is investing in?

Neil Bird: I am afraid I cannot answer that particular question.

Dr Falconer: I cannot answer that specific question. We are supporting GCF at the moment to develop a project selection tool, which will help to apply a more scientific approach to project selection, in terms of assessing potential impacts and level of country ownership. That can be used to inform the board on the decisions it makes with projects going forward, to ensure those are the highest impact and most transformational.

Q155 Henry Smith: Finally, my colleague mentioned the issue of future funding of the GCF. Of course, you will be aware that the United States has announced a withdrawal of, or that it will not make a further investment of, \$2 billion to the fund. It might seem a bit of an obvious question, but what impact do you think that will have, particularly on the investments of other donor countries, in terms of its commitment to the fund?

Dr Falconer: As Neil said, it is a little early to say with the GCF. The experience from CIF, the Climate Investment Funds, was that concessional finance was really transformational in crowding in other investors, but also in helping to transform the MDBs themselves and to push the progress that has been made within MDBs. Without a continuation of that also through the GCF, there would be a big hole for developing countries in implementing their NDCs. There is a very small amount of that kind of flexible concessional capital available that can prove sustainable business models.

Neil Bird: The impact of the Trump Administration not honouring that \$2 billion commitment is that it has brought forward the replenishment cycle of the Green Climate Fund. The Green Climate Fund will run out of money in 2019, unless that replenishment cycle is successful.

Chair: That takes us neatly to Pauline's question.

Q156 Mrs Latham: Yes. On that point, evidence to the Committee from Christian Aid suggested that the Climate Investment Funds should enact its sunset clause and transfer the funding to the Green Climate Fund, as



it is more accountable. Do you agree with that? This is specifically to Neil.

Neil Bird: Let me offer a simple analogy. If the tide was rapidly coming in on a beach and I had two boats, one which I knew floated and would take care not only of me but of more vulnerable members of society, and another boat, which everyone recognises is the best design but they are still putting the keel together, I know which boat I would go into for this tide. We have heard about the urgency of the response that is needed now. The sunset clause is an important political moment for the Climate Investment Funds. I would just question whether taking that action now will hold up very significant work that is needed.

Q157 **Mrs Latham:** Do you think the UK is able to influence what kind of investments are taken by the Green Climate Fund or the Climate Investment Funds?

Neil Bird: The UK sits on the trust fund committees of the Climate Investment Funds and this year is the co-chair of the Green Climate Fund board. The UK has considerable influence.

Q158 **Chair:** Can I finish by asking each of you very briefly to respond to this question? Our inquiry is looking at the work the UK does to combat climate change in the context of development. We will make recommendations to DFID primarily, but the UK Government more generally. If you could make one recommendation in this area to the British Government, what would it be? Do not worry. You have so many; it is choosing just one.

Dr Wright: In general, the UK should look to best practices from some of the development banks in what they are doing. More specifically, I would probably go back to the issue I mentioned earlier, which is more linked to the financial sector and trying to encourage disclosure. Through the private sector investments the UK engages in, including in other ways, for example in the GCF board role, the UK could promote the use of better disclosure on coal risks, for example, by private sector actors it is working with.

Chair: That is a great answer. Thank you very much.

Neil Bird: For me, it is to demonstrate that climate finance, under the UK aid budget, contributes to poverty reduction and meeting the needs of the most vulnerable in an explicit way.

Chair: Excellent.

Dr Falconer: It is to continue with a basket of approaches, which includes contributing to multilateral organisations and funds. Also, doing more bilaterally, directly, could be quite impactful, in the way that comparative donors among other western countries are approaching, say with the Germans and GIZs, the Dutch and their approach to development co-operation, so really having a strong footprint on the ground in developing countries.



HOUSE OF COMMONS

Chair: Thank you very much. There were great answers to all the questions, but those last answers were really helpful. Thank you very much indeed for your evidence today.