

WRITTEN EVIDENCE FOR THE INTERNATIONAL DEVELOPMENT COMMITTEE

Inquiry into the effectiveness of UK Aid

Submitted by Third Generation Environmentalism (E3G)

Introduction and about E3G

1. E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. E3G has a track record of experience and expertise on sustainable finance in the UK and internationally. For example, E3G provided the Secretariat to the UK Green Finance Taskforce, and previously worked to propose, design and campaign for the UK Green Investment Bank. E3G has recently been providing advice and support to the UK COP26 Presidency in relation to international climate finance issues.

Summary of evidence

2. **Spending of UK aid requires a much more strategic approach in order to maximize positive impact on developing countries and to ensure limited international public finance is used to maximum effect.** Such a strategic approach is essential for UK aid to play an effective role in responding to climate change and other threats to the pillars of the international order which the UK must uphold: development, peace and security, human rights and international law.¹ In the context of climate change, UK aid, including International Climate Finance (ICF), should become more strategic in focusing on highest-impact activities. UK aid, particularly ICF, should move beyond solely avoiding investments that are misaligned with the Paris Agreement (e.g. fossil fuels) and aim to focus on high-impact investments that are transformational in driving economies toward decarbonisation and resilience.²
3. **Better leadership and leverage of international financial institutions:** As a major shareholder of international financial institutions, the UK should develop a comprehensive strategy for exerting its influence through shareholdings in the multilateral development banks (MDBs) and the International Monetary Fund (IMF). This would help to better ensure that UK aid is being used to transformational effect and that these international institutions are responding adequately to global challenges, aligning operations with the Paris Agreement and accelerating country transitions toward decarbonisation and resilience. Historically, the UK's investment in the CIFs have played a useful role in catalysing broader action from the MDBs collectively. The UK could support enhanced coordination of bilateral development aid to address imbalances in the distribution of aid which is resulting in an accumulation of aid provision in some countries and gaps in others.
4. **Delivering transformational outcomes through strategic investments:** The UK should play a transformational role in assisting countries to enhance resilience and decarbonise, in line with the Paris Agreement. UK aid, in particular UK International Climate Finance (ICF), should prioritise areas where public finance can have maximal impact, avoiding overinvestment where it is not needed, and focusing on opportunities for catalytic impact. For instance, in the energy transition, UK aid can prioritise investments unlocking new finance for power grid infrastructure to facilitate high-penetration of renewables, rather than supporting technologies that are already commercially viable. In parallel, neither are all investments in resilience created equal in their effectiveness, requiring strategic evaluation for system-level impact. As a precondition for effectiveness, aid should avoid

¹ E3G (2016) [United we stand](#).

² Much of this is consistent with the recommendations of the Independent Commission for Aid Impact (ICAI) regarding UK ICF. See: <https://icai.independent.gov.uk/report/international-climate-finance/>

areas that run counter to UK development goals—notably in fossil fuels that run counter to various aid objectives.

5. **The need to enhance UK institutional capacity for strategic spending:** To make best use of public funds, DFID should go beyond disbursement to improve its ability to ensure the most impactful use of UK aid. To maximize impact, DFID should develop its institutional capacities for strategic responses to global risks such as climate change. In so doing, DFID should deepen its engagements with other departments across government, to improve learning, exchanging best practice, and create finer understandings of which investments are most transformative. Moreover, to maximize its potential effectiveness, the UK will need to be able to offer more technical assistance and programmatic project origination efforts.
6. **Learning from international examples of institutions demonstrating best practice:** Whilst the UK has pursued a lean approach to its development spending and eschewed bureaucracy, this may have resulted in lower capacity for learning, influence, and strategic approaches. Effective models in other countries include:
 - > France (AFD) – the AFD is a global thought leader in development policy, and this year is playing a groundbreaking role in convening public and development banks (including MDBs) worldwide, to further aligned strategic approaches to climate, the SDGs, and other global challenges.³
 - > Germany (GIZ) – GIZ engages in extensive bilateral technical assistance for countries around the low-carbon transition, helping to build the capacities of developing country institutions for the long-term. Additionally, GIZ also are able to provide technical assistance to strengthen the MDBs of which Germany is a shareholder, to make them more effective in channeling Germany’s development spending around the world.
7. **Potential for a UK National Public Bank with a Development Arm:** One proposal currently under consideration concerns the creation of a UK national public bank, which would invest public money strategically toward policy goals. In addition to supporting the UK economic recovery from COVID-19 and compensating for the loss of access to the European Investment Bank due to UK exit from the EU, such a bank could provide a valuable vehicle and locus of expertise for channeling UK development assistance abroad. This would make added sense because the European Investment Bank itself also plays a dual role, primarily focusing on domestic investment but also applying its expertise and standing to fulfil a secondary purpose of providing assistance with key areas to developing countries.
8. **Ensuring that UK overseas finance does not compromise the effectiveness of UK aid.** The UK’s domestic and international goals on climate change are at risk of being undermined by the UK’s wider support for fossil fuels overseas. For example, the Private Infrastructure Development Group (PIDG), has spent \$750 million⁴ in aid money on fossil fuel projects across developing countries. Overall, 97% of UKEF’s overseas investment into energy has been to fossil fuels, rather than renewable energy, over 2010-17⁵. The impact of these fossil fuel investments overseas will increase greenhouse gas emissions and create long term carbon lock-in across energy systems. Implementing a ‘whole-portfolio’ approach will ensure that UK overseas finance is fully aligned with UK aid’s goals on climate change.
9. **Committing to end all ODA support for fossil fuels:** Whilst the announcement that the UK will end support for coal mining and power plants overseas is a step forward, coal represents a small amount of the UK’s current fossil fuel support, and the UK should follow best practice in international public finance and commit to end all support for fossil fuels, including gas.⁶ The UK should build coalitions other countries and MDBs to do the same, and to scale investment in low-carbon solutions across the energy system value chain (renewable energy, efficiency, distributed generation and energy access) – since SDG7 remains significantly underfunded and unlikely to achieve universal access to affordable, reliable, sustainable, and modern energy by 2030.

³ See: <http://financeincommon.org/>

⁴ Global Witness (2020) [In Aid Of Who? The obscure investment fund using UK aid money to finance climate change around the world](#)

⁵ CAFOD (2019) [Analysis – UK Support For Energy](#)

⁶ See: <https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy>