

**Written evidence to the IDC Inquiry on Effectiveness of UK Aid by the Catholic Agency for Overseas Development (CAFOD)
21 May 2020**

Executive Summary and Recommendations

- To be effective, aid spent through all channels must be aligned with the UK's commitments under the Paris Climate Agreement, the Sustainable Development Goals (SDGs) and international environmental conventions. This requires a coherent, cross-Whitehall strategy to ensure all UK aid addresses the 'triple emergency' of poverty and inequality, climate change and environmental degradation in developing countries.
- In line with the UK's commitments under the Paris Agreement and the SDGs, and the recommendations of the ICAI review of ICF (2018) and the IDC inquiry into *UK aid for combating climate change* (2019), climate change should be a cross-cutting strategic priority in all the UK's aid spending, and along with environmental sustainability and biodiversity, integrated with poverty reduction in all departmental aid strategies.
- The ineffectiveness in aid spending caused by an inconsistent approach is illustrated by UK finance for energy overseas. Sixty percent of UK overall support for energy and at least a quarter of ODA support for energy goes to fossil fuel development. Only eight percent of overall support and twelve per cent of ODA go to energy access for the poorest. This clearly undermines the UK's climate and SDG goals, in terms of further locking developing countries into polluting fossil fuel energy systems.
- Renewable energies are now the least cost, most resilient sources to power future inclusive development and to deliver SDG 7 on universal access to energy. All UK ODA, as well as non-ODA support for all fossil fuels should be phased out by 2021, and support for renewable and efficient energy and energy access significantly scaled up.
- DFID and other departments spending UK aid must also ensure more transparent consultation over policies and investments with, and greater inclusivity of, the views and voices of communities and civil society organisations, including those at the frontline of the climate and environmental crises. This includes consultation over CDC's Climate Change Strategy.
- UK Aid used for COVID-1- response and recovery packages must also support climate resilient, inclusive development and avoid any dangerous return to "business as usual" practices that will further degrade the environment, exacerbate climate change and undermine community resilience, including to further pandemics.
- It is in the UK national interest to ensure all its public support and diplomacy is aligned with supporting inclusive low carbon, climate resilient development that leaves no-one behind. This will cement the UK's climate leadership, including contributing to a successful COP26 outcome. It will also contribute to futureproofing the UK's own economy and open new trading opportunities.

1. CAFOD is the official aid agency for the Catholic Church in England and Wales; part of the global Caritas confederation of national organisations, each governed by their national Bishop's conference and linked to national Catholic commissions on health, education and peace/justice issues. CAFOD partners with diverse local NGOs, including both faith-based groups and others working on human rights and other issues regardless of religion or culture.

How effective and transparent is the UK aid spent by the Department for International Development compared to aid allocated to other Government departments and to the cross-Government funds?

2. To be effective, UK aid spent through all channels must be aligned with its commitments under the Paris Climate Agreement, the Sustainable Development Goals (SDGs) and international environmental conventions. This requires a coherent, cross-Whitehall strategy to deploy UK aid to address the 'triple emergency' of poverty and inequality, climate change and environmental degradation in developing countries.
3. In 2018, the Intergovernmental Panel on Climate Change (IPCC) highlighted the urgency of limiting global warming to below 1.5°C to avoid its most disastrous impacts.¹ Current emissions reduction targets set the world on course for over 3°C of global warming. A warming climate is projected to slow down economic growth, erode food security, exacerbate existing poverty traps and create new ones.²
4. The impacts of a changing climate are already affecting some regions more than others,³ and fall disproportionately on the poorest and most vulnerable people. Without urgent climate action, the huge reductions in poverty over recent decades to which the UK has made a considerable contribution, as well as future delivery of the SDGs, are at risk.⁴ Some estimates suggest climate change could push more than 100 million additional people into poverty by 2030.⁵
5. In 2019, the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) reported that over 1,000,000 species are threatened by extinction.⁶ Human activities are leading to mass environmental degradation and this impact is increasing. For example, three-quarters of the land-based environment and about 66%

¹ IPCC (2018) *Global Warming of 1.5 °C: an IPCC special report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty.*

² IPCC (2014) *Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.*

³ The Southern African interior region has already reached 2°C of global heating, with corresponding impacts on production of food crops. "At 3°C of global warming, there is the potential for the total collapse of the maize crop in southern Africa. Remember, 3°C of global warming is 6°C regionally. At that number, there will also be a total collapse of the livestock industry." Engelbrecht, F., Adegoke, J., Bopape, M.J., Naidoo, M., Garland, R., Thatcher, M., McGregor, J., Katzfey, J., Werner, M., Ichoku, C. and Gatebe, C. (2015) Projections of rapidly rising surface temperatures over Africa under low mitigation. *Environmental Research Letters*, 10(8), p.085004.

⁴ UK International Climate Finance (2020) <https://www.gov.uk/guidance/international-climate-finance>

⁵ World Bank Group (WBG) (2019). *Climate Change: Overview*, 4 October.

⁶ IPBES (2019) *Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services*, May 2019

of the marine environment have been significantly altered by human activity, while forests are being destroyed at a rate of around one football pitch every two seconds.⁷

6. Loss of biodiversity and eco-system degradation have negative impacts particularly for poor groups. The World Bank Group (WBG) calculates that nature provides 47% of GDP for the poorest. In 2019, IPBES reported in that: "Current negative trends in biodiversity and ecosystems will undermine progress towards 80% (35 out of 44) of the assessed targets of the Sustainable Development Goals, related to poverty, hunger, health, water, cities, climate, oceans and land (SDGs 1, 2, 3, 6, 11, 13, 14 and 15)."⁸ As such it is not hard to understand why IPBES concluded that loss of biodiversity is "not only an environmental issue, but also a developmental, economic, security, social and moral issue as well."
7. In terms of the SDGs, twenty-one of the SDG targets expire in 2020 and will not be met. Securing commitments and action to meet the 2030 targets is now urgent and can only be achieved through truly integrated UK action, including deployment of UK aid.
8. The scale and interconnectedness of the 'triple crisis' requires DFID's departmental strategy to mainstream and integrate environmental sustainability and climate change action with poverty, as well as ensuring aid spent by DFID is aligned with, and integrated into, the wider cross-Whitehall strategy to ensure coherence and effectiveness of UK aid spending.
9. DFID policies and investments must also ensure more transparent consultation with, and greater inclusivity of, the views and voices of communities at the frontline of the climate and environmental crises. This includes engagement with civil society groups and faith-based organisations at national and local level, who are often closer to the communities most affected by climate change and environmental destruction.
10. Transparency of DFID interventions and participation of poor and vulnerable communities is also critical for UK aid spent as part of COVID-19 response and recovery. DFID must ensure promotion and integration of environmental sustainability and climate change action into recovery packages and avoid any dangerous return to "business as usual" practices that will further degrade the environment, exacerbate climate changes and undermine community resilience, including to further pandemics.
11. Under the Paris Agreement, the UK pledged to make global financial flows "consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".⁹
12. As host of next Climate Summit (COP26), the UK will play a key role in delivering a successful outcome. This includes ensuring both emissions cuts and public finance are at the scale required to keep below dangerous levels of warming and support poorer countries and communities to adapt and build resilience to climate change impacts. The

⁷ WWF (2019) *Tackling Forest Loss*. <https://www.wwf.org.uk/what-we-do/tackling-forest-loss-and-damage>

⁸ IPBES (2019). Op.cit. <https://ipbes.net/news/Media-Release-Global-Assessment>

⁹ United Nations (2015). *Paris Agreement*, Article 2:1c.

effectiveness of UK aid in supporting these outcomes is critical.

13. Launching the '[COP26 Private Finance Initiative](#)' in February this year, UN Special Envoy and the UK Prime Minister's Finance Adviser for COP26, Mark Carney, stated that the climate change challenge requires a whole economy transition. Every investor, bank and insurer will need to adjust their business models for a low carbon world. He called for financiers to adopt a strategy based on the three 'R's of (i) climate *risk management*; (ii) risk *reporting* and; (iii) development of appropriate metrics to measure alignment of investments with net zero (*returns*).¹⁰ Carney also highlighted the need for complementary action by *public* finance institutions to align with a net zero pathway and scale up blended forms of financing for the low-carbon transition.

14. In February 2019, the Independent Commission for Aid Impact (ICAI) published the findings of a performance review of UK International Climate Finance (ICF)'s low carbon development approach. ICAI found that 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". In particular, DFID should "adopt a more structured and deliberate approach to integrating low-carbon development across its programming. It also called for improvements in "visibility and public accountability."¹¹

15. In September 2018, the International Development Select Committee (IDC) held an inquiry into *UK aid for combating climate change*. In written evidence, CAFOD called for the UK to adopt a more strategic, integrated and cross-portfolio approach. Our key recommendations to the UK government are summarised below:
 - Put climate change at the centre of the UK's development strategy by aligning all its support with the Paris Agreement and the SDGs.
 - Ensure coherence of ODA support to developing countries through all channels, including the Commonwealth Development Corporation (CDC) and other intermediated investments, as well as non-ODA support such as export finance.
 - Ensure meaningful and transparent reporting on the impact of UK ODA in addressing climate change and supporting climate-resilient development.
 - Use UK influence within the multilateral development system to promote a pro-poor transition to a climate-resilient zero-carbon development internationally.¹²

16. The IDC in its findings agreed with many of our recommendations, stating: "Climate change needs to be recognised as a cross-cutting strategic priority in all the UK's aid spending and should be comprehensively integrated across all development assistance strategies."¹³ In addition, the IDC called for more integration of climate change action with delivery of the SDGs: "Climate finance has to be consistent with poverty reduction [...] All UK aid, no matter which department administers it, should be spent in a way that manages trade-offs and is consistent with both these goals."¹⁴

¹⁰ Bank of England (2020). 'Launch of COP26 Private Finance Agenda', 27 February.

¹¹ ICAI (2019). *International Climate Finance: UK aid for low-carbon development*, 19 February. See: <https://icai.independent.gov.uk/report/international-climate-finance/>.

¹² CAFOD (2018). *INTERNATIONAL DEVELOPMENT COMMITTEE: UK aid for combating climate change inquiry – September 2018*. Written evidence submitted by the Catholic Agency for Overseas Development (CAFOD).

¹³ IDC (2019). *UK aid for combating climate change/ Eleventh Report of Session 2017–19, HC 1432*, 8 May. Executive Summary, p. 3.

17. In response to the IDC report, then Secretary of State for International Development, Rory Stewart, accepted the need for “wholesale change” in DFID’s approach to climate action to ensure consideration of climate and environmental protection in every project DFID pursues.¹⁵
18. More recently, Energy Minister the Rt Hon Kwasi Kwarteng reaffirmed the need for UK public finance to be aligned with climate action: “any form of [UK public] financing should absolutely take into account our net zero commitment, and it is in the process of doing so.”¹⁶ Secretary of State Alok Sharma also at the Placencia Ambition Summit and the Petersburg Climate Dialogue stated his ambition to align UK public finance with a low carbon, climate resilient pathway.
19. To date, however, there appears to be no process in place for developing a cross-DFID - let alone cross-Whitehall – strategy to align UK public finance nor progress on implementing the Recommendations of the IDC and ICAI inquiries. It is therefore unclear how the UK intends to adopt the appropriate cross-departmental decision-making criteria, monitoring and reporting frameworks to ensure policy alignment, nor ensure transparency and stakeholder engagement around such frameworks.
20. One specific example is CDC’s new Climate Change Strategy. Given that CDC receives half of DFID’s overall funding it is important that this Strategy is effective and developed transparently in order to ensure appropriate scrutiny.
21. UK NGOs from the BOND coalition were invited to participate in a presentation of the Climate Change Strategy by CDC in February 2020. NGOs welcomed CDC’s stated intention to align its whole portfolio with keeping below 1.5°C but for the strategy to be effective, recommended that it must cover CDC’s intermediated as well as its direct investments. In addition, NGOs highlighted the need for a proactive engagement strategy with CDC’s clients and other key stakeholders such as peer DFIs and national level decision-makers, on the need for development pathways aligned with the 1.5°C ceiling.¹⁷
22. The status of the CDC’s Strategy and the process for seeking and responding to stakeholder input also remain unclear. When NGOs requested further dialogue on the Strategy, CDC stated it would be holding another “climate focused dialogue session” towards the end of the year. However, according to the CDC Board meeting notes of November 2019, the strategy has already been approved by the Board.¹⁸ It is not clear what the purpose of the outreach to NGOs is, and whether there remains any opportunity for external stakeholders to inform and scrutinize the strategy development.
23. The lack of a strategic and integrated cross-Whitehall approach to aligning UK public finance overseas with its Paris commitments can be clearly illustrated by UK finance for energy overseas. The findings of the IDC Inquiry into *UK aid for combating climate*

¹⁴ Ibid, p. 4.

¹⁵ DFID (2019). “Rory Stewart comments on IDC report into use of UK aid to tackle climate change”. 8 May. See: <https://www.gov.uk/government/news/rory-stewart-comments-on-idc-report-into-use-of-uk-aid-to-tackle-climate-change>

¹⁶ See: <https://hansard.parliament.uk/Commons/2020-03-03/debates/38268926-C6A9-4229-B398-2538A6CE80B5/UKExportFinanceCoal?highlight=%22net%20zero%22#contribution-AC587BC3-D54C-4E44-BEF8-4FA56512B9D5>

¹⁷ CAFOD joint CSO letter to Colin Buckley, General Counsel and Head of External Affairs, CDC, March 2020.

¹⁸ See: <https://assets.cdcgroup.com/wp-content/uploads/2020/02/18120316/CDC-Board-minutes-22-November-2019.pdf>

change (2019) stated that the lack of coherence on climate change across government policy was demonstrated by the support of UK Export Finance for fossil fuel economies in developing countries, and calling for this “to be urgently rectified.”¹⁹ It also highlighted the inconsistency of “continued ODA support for fossil fuels without apparent, comprehensive strategies in place for transitioning beyond these forms of energy”.²⁰

24. Further fossil fuel investment is incompatible with a reasonable to high chance of keeping below 1.5°C of warming²¹, yet emissions from burning fossil fuels are rising.²² Fossil fuel use is also the main cause of ambient (outdoor) air pollution, resulting in an estimated 4.2 million premature deaths globally every year.²³
25. Further fossil fuel development is incompatible with a reasonable to high chance of keeping below 1.5°C of global warming. Fossil fuel use is also the main cause of ambient (outdoor) air pollution, resulting in an estimated 4.2 million premature deaths globally every year.²⁴ Household air pollution from cooking with solid fuels and using polluting lighting sources affects over 70 percent of Africans and significantly increases their vulnerability to respiratory illnesses such as COVID-19 and pneumonia (see below).
26. Fossil fuels are also not needed to lift people out of energy poverty. Currently 840 million people globally have no electricity and nearly three billion use polluting fuels for cooking.²⁵ Eighty-seven percent of those without electricity live in rural areas, far from centralised electricity grids, in what is called the ‘last mile’.²⁶ A least-cost assessment indicates that two-thirds of electricity investment should be in decentralized renewable electricity (DRE) solutions (e.g. solar home systems, mini-grids) to reach the last mile.²⁷
27. Only 8% of overall UK energy support and 12% of ODA support goes to energy access for poor communities.²⁸ This is despite a global financing gap for energy access, with only around one percent of current financing going to DRE and even less to clean cooking solutions.²⁹
28. Fossil fuels are also not the optimal energy sources to power future inclusive development. Electricity demand in middle- and low-income countries is expected to grow but Levelized Cost of Electricity (LCOE) from alternative energy sources points to renewables as the least cost option for future generation, not fossil fuels.³⁰ Renewable energy is now the most-added type of generation – with 2360 GW (62% of the total capacity) added in 2018.³¹ Rather than supporting further fossil fuel lock-in, the UK

¹⁹ IDC (2019). Op. cit., p. 53.

²⁰ IDC (2019). Op. cit., p. 65.

²¹ International Energy Agency (IEA) (2018). The IEA stated in relation to publication of its World Energy Outlook (WEO) that almost all of the world’s carbon budget up to 2040 would be accounted for by emissions from existing power stations, vehicles and industrial facilities.

²² Carbon Trust (2020). *Analysis: Why coal use must plummet this decade to keep global warming below 1.5C*

²³ World Health Organisation (2018) *Ambient Air Pollution*. See: <https://www.who.int/airpollution/ambient/en/>

²⁴ World Health Organisation (2018) *Ambient Air Pollution*. See: <https://www.who.int/airpollution/ambient/en/>

²⁵ IEA, IRENA, UNSD, WBG & WHO (2019). *Tracking SDG 7: The Energy Progress Report 2019*.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Sustainable Energy for All (2018). *Energizing Finance: Understanding the Landscape 2018*.

²⁹ Ibid. Moreover, less than one percent of global energy access finance flows to the DRE and clean cooking solutions needed by most poor people.

³⁰ IRENA (2019). *Renewable Power Generation Costs in 2018*.

should be supporting developing countries to access the technologies, and the financing, business and policy expertise required to build the transport and electricity systems of the future.

29. The UK has shown leadership by committing to phase out support for coal power domestically, and overseas finance through the Powering Past Coal Alliance. Most recently the Prime Minister pledged to stop all new direct UK public support for coal mining or power plants while “turbocharging” UK support for renewable energy.³² Secretary of State Alok Sharma has also committed in tandem with seeking a coal phase up to scale up UK technical assistance, investment and policy support to developing countries to support them to shift to clean power, and to increase electricity access.
30. However, direct coal lending represents only 1% of the UK’s energy support overseas.³³ Focussing on phasing out UK support for coal overseas and building international consensus for this goal alone will not be effective in terms of the UK playing its part in securing a just energy transition.
31. CAFOD and ODI research on UK support for energy overseas between 2010-17 (and presented to the EAC Inquiry on UKEF energy financing) identified £7.8 billion in UK energy support overseas (ODA and non-ODA) in this period. £4.6 billion or 60% of all support went to fossil fuel development, and almost 100% of export finance.³⁴ While most ODA support for energy overseas (2010-17) went to renewables (46%), almost a quarter (22%) went to fossil fuels, further exacerbating climate change.³⁵
32. In addition, in terms of promoting a *just* energy transition, only 8% of overall UK energy support and 12% of ODA support goes to energy access for poor communities.³⁶ This is despite a global financing gap for energy access³⁷, especially for the decentralized renewable energy and clean cooking solutions that are the least-cost solutions for most communities living in energy poverty.³⁸
33. The actual amount of fossil fuel finance overseas provided by the UK is likely far higher than the CAFOD/ODI research has highlighted, as there is a lack of data on fossil fuel support through CDC’s intermediated investments and through the UK’s shareholding in multilateral development banks (MDBs). Additional evidence of ongoing, large-scale UK fossil fuel support overseas includes recent analysis by Global Witness into the Private Infrastructure Development Group (PIDG), showing \$750 million of ODA spent on fossil fuel projects overseas from 2002-18.³⁹
34. Given the above, the UK must commit urgently to a strategic, consistent whole-portfolio approach to its energy support overseas, encompassing DFID and all other departments channelling UK aid.

³¹ IRENA (2020). *10 Years: Progress to Action*, January.

³² UK Government (2020). *PM Africa Investment Summit speech: 20 January 2020*.

³³ CAFOD & ODI (2019). *UK Support for Energy in Developing Countries: 2010-2017*.

³⁴ Ibid.

³⁵ CAFOD & ODI (2019).

³⁶ Sustainable Energy for All (2018). *Energizing Finance: Understanding the Landscape 2018*.

³⁷ Ibid. Moreover, less than one percent of global energy access finance flows to the DRE and clean cooking solutions needed by most poor people.

³⁸ Ibid.

³⁹ Global Witness, February 2020, ‘In Aid Of Who? The obscure investment fund using UK aid money to finance climate change around the world,’ <https://www.globalwitness.org/en/campaigns/climate-breakdown/aid-who/>

35. CAFOD recommends the UK makes a clear policy commitment to phasing out all support for all fossil fuels by 2021, and significantly scaling up support for renewable energy and energy efficiency and for energy access, particularly for decentralised renewable energy (DRE) and clean cooking. The UK should also review the impacts of the phase out on workers in the UK and overseas and develop a plan to support a just transition for those affected. Finally, it should proactively engage with other countries and MDBs to build a global coalition around this position.
36. Such a position would be in line with emerging best practice internationally. In November 2019, the European Investment Bank (EIB) raised the bar for public financiers by committing to end all fossil fuel support within two years.⁴⁰ The Canadian export credit agency has also announced that it will set targets to reduce the carbon intensity of its overall portfolio,⁴¹ while BPIFrance, the French export credit agency, has enacted legislation to end to coal support and restrict oil and gas lending.⁴²

How should the national interest be defined, and what weight should it be given, in relation to targeting UK aid?

37. The national interest lies in addressing the 'triple emergency'. This goal should also be prioritised in any new trade deals the UK pursues, as well as in how the UK targets aid in response to the COVID-19 crisis and in recovery packages.
38. There is a need for a strategic and integrated approach across all financing channels and all UK trading relationships if the UK's environmental, decarbonisation and poverty reduction are not to be undermined. Again, this can be illustrated by the example of UK ongoing support for fossil fuel overseas, both ODA and non-ODA. ODA and non-ODA should both be aligned with delivering low-carbon, climate resilient development.
39. This includes ensuring that recovery packages increase support for adaptation and climate change resilience and include measures to address environmental degradation to build general community resilience. Recovery packages should also increase community access to basic services, including health services. Increased support for energy access can also build community resilience, at household level, at the level of community services, including healthcare, and through supporting income-generating activities.⁴³
40. UK aid should be targeted to support developing country governments to ensure citizens' needs are fully integrated into the planning and delivery of recovery

⁴⁰ EIB (2019). 'EU Bank launches ambitious new climate strategy and Energy Lending Policy', 14 November

⁴¹ Export Development Canada (2018). 'Climate Change Policy', December 2018.

⁴² Reuters (2019). 'France targets fracking and flaring with export guarantee overhaul', 5 November.

⁴³ In sub-Saharan Africa, [only 28% of healthcare facilities benefit from reliable electricity](#), and only [43% of the population is electrified at all](#). Puliti, R. World Bank Global Director for Energy and Extractive Industries and Regional Director for Infrastructure in Africa & Ogunbiyi, D. SEforALL CEO and Special Representative of the UN Secretary-General for Sustainable (2020).

'Energy access takes center stage in fighting COVID-19 (Coronavirus) and powering recovery in Africa', 22 April. <https://www.worldbank.org/en/news/opinion/2020/04/22/energy-access-critical-to-overcoming-covid-19-in-africa>

interventions, including through use of social protection approaches to deliver basic services to the poorest and most vulnerable groups.⁴⁴

41. This is also in the UK's national interest in terms of its own economy and future trading opportunities. For instance, in the case of UKEF's energy portfolio, this represents not only a huge exposure to climate risk but also a lost opportunity for UK trade in renewable energy. The growth of renewable energy sectors in the UK presents huge export opportunities, with an estimated \$3.3tn expected to be invested globally in renewables by 2040.⁴⁵ The UK already has a world-leading domestic supply chain exporting wind, tidal and wave technology to over 40 countries.⁴⁶ UKEF's recent support for large-scale offshore wind developments and utility-scale solar shows the pathway to futureproof UKEF's energy portfolio.⁴⁷

⁴⁴ Ibid. See also CAFOD, ODI and Sustainable Energy for All (2020). Energy Safety Nets Series.

<https://www.seforall.org/data-and-evidence/energy-safety-nets-series>

⁴⁵ Bloomberg New Energy Foundation (BNEF) (2017). *New Energy Outlook 2017*.

⁴⁶ RenewableUK (2017). 'Export Nation: A Year in Wind, Wave and Tidal Exports', 24 April.

⁴⁷ UK Export Finance (2019) '£230 million in UKEF support for offshore wind farm in Taiwan', 5 November; UK Export Finance (2020), 'UK solar company secures funding to build two major solar plants in Spain', 2 January.