



National Audit Office

**BRIEFING FOR THE
HOUSE OF COMMONS
ENVIRONMENTAL AUDIT
COMMITTEE**

FEBRUARY 2011

Department for International Development

Aid and the environment

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This report can be found on the National Audit
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Summary

Scope and structure of briefing

1 The National Audit Office has compiled this briefing for the Environmental Audit Committee in support of the inquiry it is undertaking on the impact of UK overseas aid on environmental protection and climate change adaptation and mitigation. The briefing is intended to complement the information the Department for International Development (DFID) is itself providing in its memorandum, and covers the following areas:

- Part 1 provides information on the departments involved in providing aid and the ways in which they deliver it;
- Part 2 provides an analysis of recent UK expenditure on aid for environmental protection and climate change, the UK's commitment to provide 'Fast Start' funding, and the planned expansion of aid for climate change during 2011-12 to 2014-15;
- Part 3 sets out how DFID's previous performance framework established under the last government addressed environmental protection and climate change; the present government's priorities for environmental protection and climate change, including plans to develop performance indicators; and progress against the United Nation's Millennium Development Goal for ensuring environmental sustainability;
- Part 4 describes current developments within DFID, including its intention to become more "climate smart" by ensuring that its programmes take account of, and are resilient to, climate change. It also provides information on DFID's current reviews of its aid programmes; and
- Part 5 describes the international framework for monitoring and reporting aid expenditure, and the comparative performance of the UK against other donors.

2 This briefing consists of a series of graphics with supporting notes, and the structure is designed to provide key information in a readily assimilable form. It is based on publicly available material and in places on unpublished material that DFID has provided. We did not validate the various expenditure and performance figures it contains. We did, however, provide DFID and the Department of Energy and Climate Change (DECC) with a draft version of this briefing, and have taken into account their comments.

Key points

3 In 2009-10, the UK government provided a total of £7.8 billion in international aid to developing and less developed countries. DFID was responsible for 85 per cent of this aid. Significant amounts were also provided by the Foreign and Commonwealth Office (FCO) and the Department of Energy and Climate Change (see section 1.1).

4 Sixty per cent of aid provided is bilateral. UK government departments use a number of routes to provide this aid, including funding specific development projects, providing humanitarian assistance, funding non-government organisations, and providing budget support directly to some governments' central exchequers. The UK also provides aid by funding multilateral organisations such as the European Commission, World Bank, and United Nations agencies (1.2 and 1.3).

5 Spending directly attributable to environmental protection and climate change has risen in the last five years from £100 million in 2005-06 to around £360 million in 2009-10, but it still accounts for a relatively small proportion of total UK aid (around 4.5 per cent). Much of the increase in spending is due to the introduction in 2008 of the Environmental Transformation Fund (ETF), jointly funded by DFID and DECC and providing £800 million in aid from 2008-09 to 2010-11 (2.1 to 2.3).

6 The 2010 Spending Review has further increased the scale of resources available for climate change. It established a £2.9 billion cross-departmental International Climate Fund to follow on from the ETF so as to provide climate change related aid over the period 2011-12 to 2014-15. It is planned that the International Climate Fund will account for 7.5 per cent of UK Official Development Assistance by the end of the Spending Review period (2014-15) (2.5).

7 In response to the 2009 Copenhagen Accord, the UK government has pledged £1.5 billion in aid for climate change over the period 2010 to 2012. Some £500 million of this will be funded from the ETF in 2010-11. Most of the remainder will be funded from the International Climate Fund (2.5).

8 It can be difficult to measure the impacts of some environmental protection and climate change programmes, and DFID has had relatively few indicators to assess performance in this area. DFID has initiated work to develop indicators for monitoring the impact of the International Climate Fund and of its wider environmental protection work. The indicators will include the number of people it has helped to be better prepared to cope with the impacts of climate change (3.2 and 3.4).

9 DFID is currently conducting, or has recently completed, several reviews which are relevant in the context of the Committee's inquiry. These include reviews of its multilateral aid programme, its bilateral aid programme, and the procedures for approving and screening projects for environmental and climate change impacts. Combating climate change is one of the six priorities identified in DFID's Business Plan for 2011-12 to 2014-15 (3.2, and 4.1 to 4.4).

10 The United Nations has set a target for donor countries to provide 0.7 per cent of their Gross National Income in net aid. The UK has not met this target, but its figure for 2009 (0.52 per cent) compares favourably with the average among OECD donor countries (0.31 per cent). The 2010 Spending Review has resulted in a large increase in the UK's aid budget. The UK government now plans to meet the UN target by 2013 and to make its achievement a statutory requirement from 2013 onwards (5.2 to 5.3).

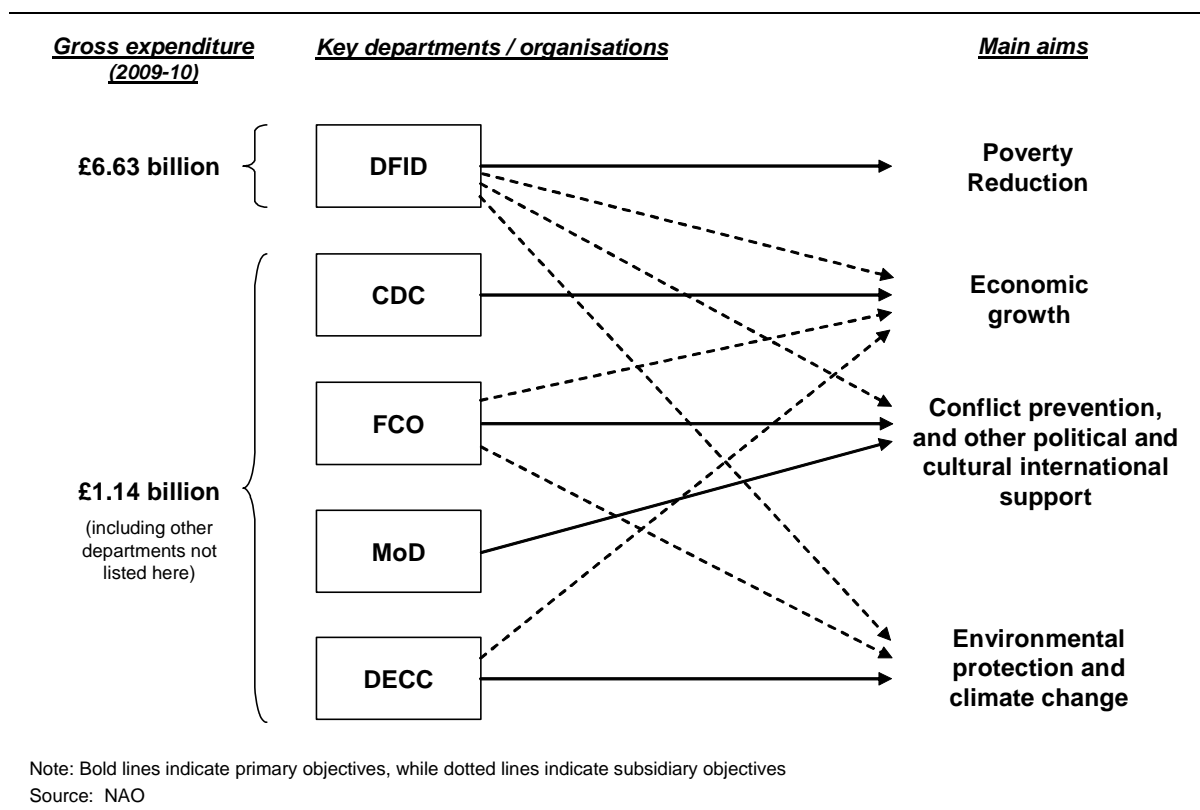
11 On the basis of publicly available information, UK aid expenditure against OECD indicators for environmental protection and climate change in 2009 appears relatively low, but revised data submitted by DFID to the OECD significantly improves the UK's ranking. Care needs to be taken in drawing comparisons as donor countries do not report such data on a consistent basis (5.4).

Part 1: Departmental responsibilities and expenditure on aid

Main findings

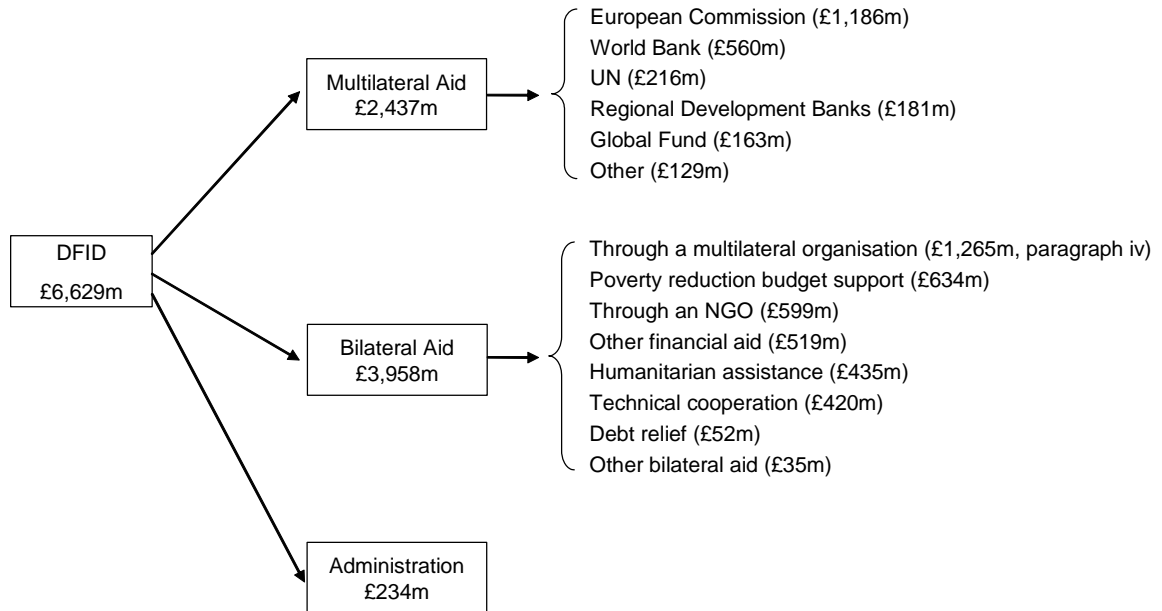
- In 2009-10, the UK provided £7.8 billion in international aid to developing and less developed countries. DFID was responsible for 85 per cent of this aid. Significant amounts were also provided by the Foreign and Commonwealth Office, the Department of Energy and Climate Change, and the Ministry of Defence.
- Sixty per cent of aid provided by the UK in 2009-10 was bilateral. Most bilateral funding has been used for traditional purposes such as economic and social development and humanitarian assistance. Relatively little aid has been provided primarily for environmental protection and climate change purposes.
- The UK also provides aid through the core contributions it makes to multilateral organisations such as the European Commission, the World Bank and United Nations agencies. These contributions totalled £2.75 billion in 2009-10. UK departments are involved periodically in agreeing the strategic priorities of such organisations, but not in operational decisions such as the allocation of core contributions to individual projects or sectors. DFID also channels some of its bilateral aid (£1.68 billion in 2009-10) through multilaterals to fund projects in specific countries or for specific purposes.

1.1: UK departmental aims and expenditure on aid



- i. Gross UK aid in 2009-10 amounted to £7.8 billion. Of this, the **Department for International Development** (DFID) provided £6.6 billion (85 per cent). Unlike other UK departments, DFID's role in providing aid is set out expressly in statute.
- ii. **CDC** is the UK's development finance institution. It is a private corporation, entirely owned by DFID, which invests capital to promote the growth of private sector businesses in developing countries.
- iii. The **Foreign and Commonwealth Office** (FCO), the **Ministry of Defence** (MoD) and DFID jointly manage the UK government's Conflict Pool, which aims to help prevent conflicts overseas.
- iv. The **Department of Energy and Climate Change** (DECC) and DFID jointly manage and fund the Environmental Transformation Fund to promote low-carbon investment in developing countries, adaptation to climate change, and the protection of forests (see 2.3).
- v. Other bodies, spending smaller amounts on aid, include the Department for Environment, Food and Rural Affairs, the Export Credits Guarantee Department, the Scottish Executive, and other non-government organisations.

1.2: DFID gross expenditure on aid (2009-10)

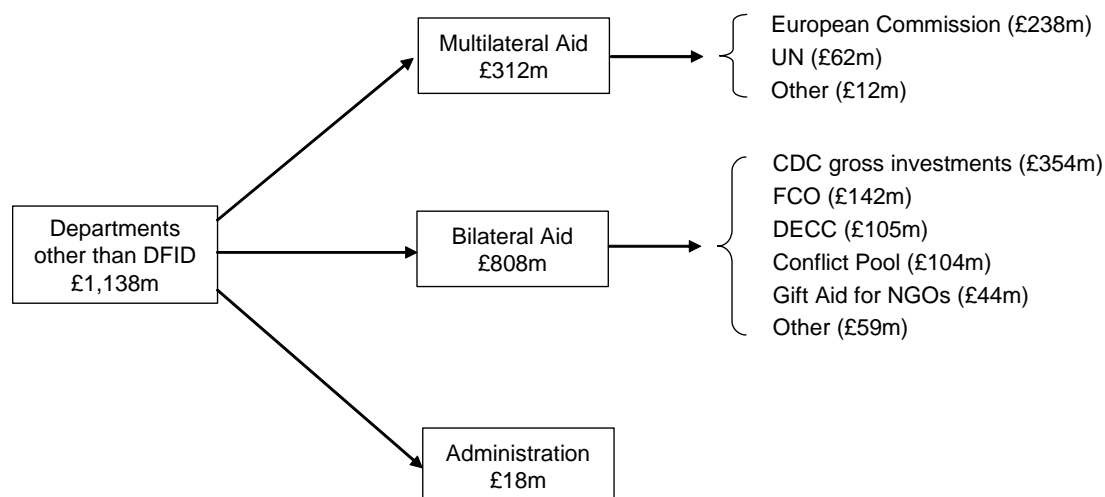


Note: Due to rounding, individual components of aid expenditure do not sum exactly to aggregate values

Source: DFID, *Statistics on International Development*, October 2010, pages 21 and 95

- i. The International Development Act 2002 specifies poverty reduction as the primary purpose of DFID aid. The Act allows DFID to provide aid for sustainable development if it is likely to contribute to poverty reduction. The International Development (Reporting and Transparency) Act 2006 requires DFID to report to Parliament on an annual basis on specific matters including levels of aid expenditure, and the effectiveness and transparency of that aid.
- ii. The Department used 37 per cent of its resources to provide core funding to multilateral organisations, such as the European Commission, World Bank and UN agencies. Like other donors, the UK government is involved periodically in agreeing the strategic priorities of such organisations, but not in operational decisions such as the allocation of pooled resources to individual projects or sectors.
- iii. In 2009-10, DFID used 60 per cent of its resources to provide direct bilateral assistance to individual countries. The bilateral programme includes funding specific development projects or programmes, providing humanitarian assistance, funding non-government organisations active in development work. The Department also provides direct budget support to 14 overseas governments' central exchequers in support of government programmes to assist poverty reduction in general, or programmes to support a specific sector such as education.
- iv. In addition to the £1,265 million identified in the figure above for bilateral aid channelled through multilateral organisations, other elements of the bilateral programme, such as humanitarian assistance and debt relief, include further sums distributed through multilaterals. In total, DFID channelled £1,676 million of its bilateral aid budget through multilaterals to fund projects in specific countries or for specific purposes.

1.3: Non-DFID gross expenditure on aid (2009-10)

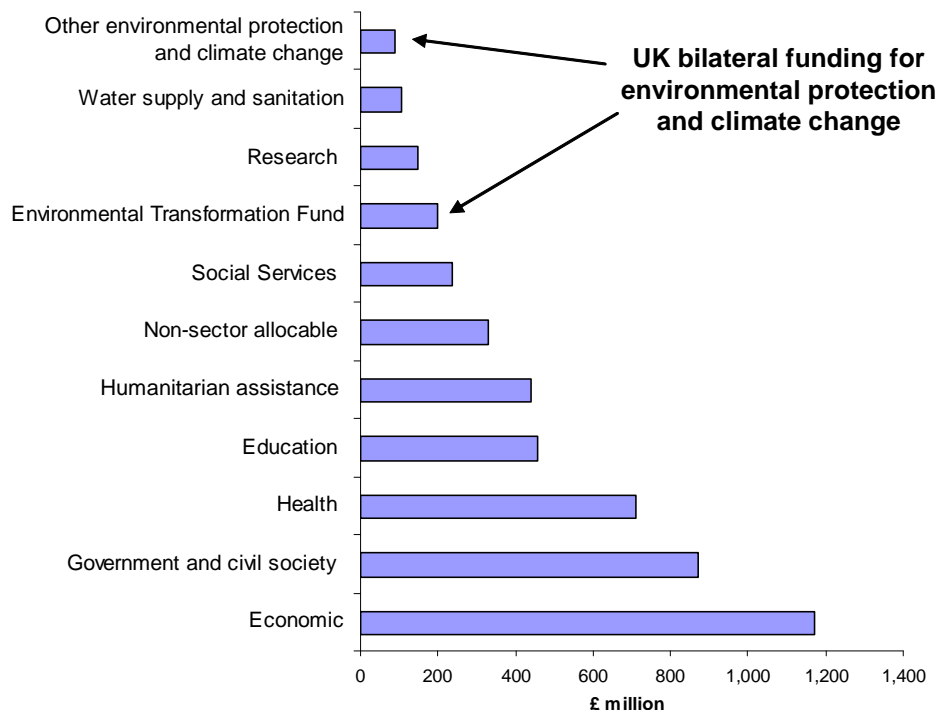


Note: Due to rounding individual components of aid expenditure do not sum exactly to aggregate values

Source: DFID, Statistics on International Development 2005-06 to 2009-10, October 2010, pages 20 and 95

- i. CDC is a private corporation entirely owned by DFID. Its investment policy and business plan are agreed with DFID. Its role and structure is currently being reviewed by DFID. CDC's gross investments count towards the UK's gross expenditure on aid. However, under international rules (see 5.1), only net CDC investment flows count towards Official Development Assistance (ODA). In 2009-10, CDC's gross investments were £354 million and net investments were £222 million. All other aid flows shown in this table count towards ODA.
- ii. FCO has contributed aid for various purposes including supporting the British Council's cultural and educational programmes and, along with DFID and the MOD, funding the Conflict Pool. The FCO has also provided contributions to multilaterals, including United Nations organisations, and has provided aid to support its specific Departmental Strategic Objective on environment and sustainability set under the previous administration. In its Business Plan for 2011-12 to 2014-15, the FCO says it will drive international action to tackle climate change by working with partners to accelerate the global transition to a low-carbon economy and by working for a comprehensive global agreement on climate change.
- iii. DECC jointly funds, along with DFID, the international element of the UK's Environmental Transformation Fund (ETF), an £800 million aid initiative announced in 2007. More information on the ETF is provided in 2.3. DECC also contributes small sums to other international organisations, such as the International Energy Agency and the UN Framework Convention on Climate Change.

1.4: Total gross UK bilateral expenditure in 2009-10 by sector



Source: NAO presentation of data from DFID including from *Statistics on International Development 2005-06 to 2009-10*, October 2010, pages 101 and 102

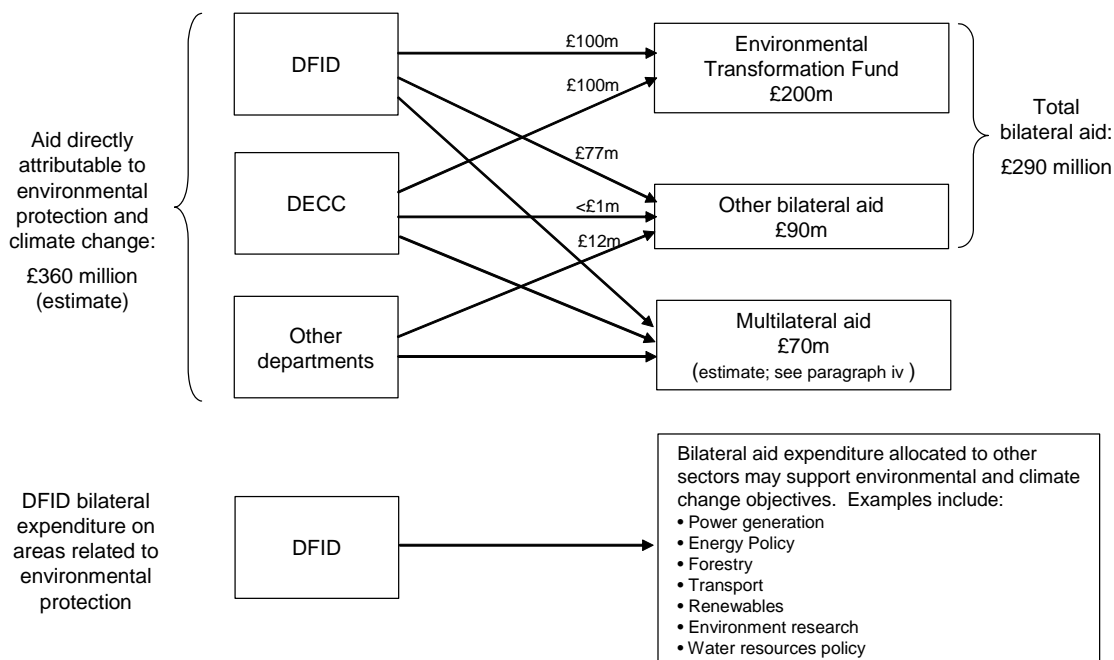
- i. In 2009-10, total UK bilateral aid for developing countries amounted to almost £4,800 million, of which DFID contributed nearly £4,000 million. Most UK bilateral aid is focussed on traditional priorities including financial support, economic and social development, health and education.
- ii. Environmental protection and climate change bilateral expenditure constituted 6 per cent of total bilateral expenditure in 2009-10. This comprised of £200 million funded through the Environmental Transformation Fund and £90 million of other bilateral spending.
- iii. The data for the above figure is drawn from DFID's project management information system. DFID use a system of coding to allocate its expenditure across a variety of different sectors. Expenditure on an individual project can be allocated to a single sector or a number of sectors depending upon the breadth of the project's objectives. Staff chose the sector or sectors they consider most relevant. This can mean that expenditure on projects which are linked to environmental protection and climate change can be allocated to other sectors, if those sectors are more relevant to project objectives. For example, a project to promote renewable energy is likely to be allocated to an economic code, although its delivery should also support climate change objectives. Thus the sector total may understate the amount DFID spend on projects which may further environmental and climate change objectives.

Part 2: UK aid expenditure on environmental protection and climate change

Main findings

- Departmental spending on aid directly attributable to environmental protection and climate change has accounted for a relatively small but increasing proportion of the UK's aid programme. In 2005-06, the UK government spent around £100 million on environmental protection and climate change. Latest figures indicate that spending had grown to around £360 million in 2009-10; approximately 4.5 per cent of total aid spending. Of this amount, some £200 million related to the Environmental Transformation Fund.
- The Environmental Transformation Fund was established in 2008 to provide £800 million in aid from 2008-09 to 2010-11. It is jointly funded by DFID and DECC.
- The 2010 Spending Review has further increased the scale of resources available for climate change. It established a £2.9 billion cross-departmental International Climate Fund to follow on from the Environmental Transformation Fund so as to provide climate change related aid over the period 2011-12 to 2014-15. It is planned that the International Climate Fund will account for 7.5 per cent of UK ODA by the end of the Spending Review period (2014-15).
- In response to the 2009 Copenhagen Accord, the UK government has pledged £1.5 billion in aid for climate change over the period 2010 to 2012. Some £500 million of this will be funded from the Environmental Transformation Fund in 2010-11. Most of the remainder will be funded from the International Climate Fund.

2.1: UK aid expenditure on environmental protection and climate change

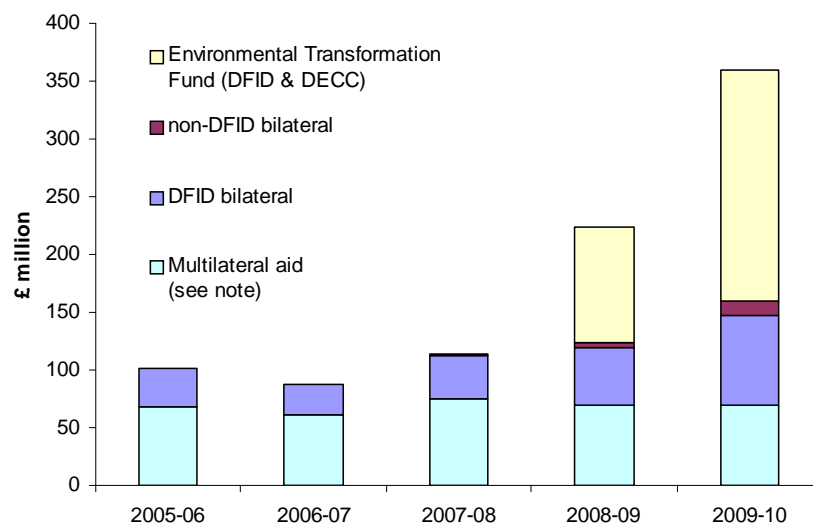


Note: Expenditure figures are for 2009-10, except for multilateral aid expenditure which is an estimate for 2008-09 (see iv below)

Source: NAO presentation of data from DFID including from *Statistics on International Development 2005-06 to 2009-10*, October 2010, pages 101 and 102

- i. The Environmental Transformation Fund (ETF), established in 2008-09, was the main source of funding for environmental protection and climate change work in 2009-10. DFID and DECC make equal contributions to the ETF: £50 million each in 2008-09, £100m each in 2009-10, and £250m each in 2010-11. More details on the ETF are at 2.3 below.
- ii. In addition to the ETF, UK departments also spent a total of £90 million of bilateral aid on individual projects categorised as environmental protection and climate change in 2009-10. DFID spent £77 million on such projects. More details on these projects are given at 2.4.
- iii. DFID's bilateral programme also funds activities which are related to environmental protection and climate change but are allocated to a different sector. For example, in 2009-10 DFID provided £13 million of support to power generation from renewable sources. This spending was categorised as "economic". It also spent £25 million on research into the Environment and Renewable Natural Resources. This spending was categorised as "research". (See also 1.4, paragraph iii)
- iv. UK departments cannot directly track how UK core contributions to multilateral organisations are used. DFID therefore uses the breakdown of ODA reported by each multilateral organisation to the OECD's Development Assistance Committee to estimate how UK government core contributions are spent by sector. The latest available figures reported by multilaterals are for 2008-09. DFID estimated that in 2008-09, multilaterals used £70 million of core contributions from UK departments for environmental protection and climate change purposes, £5 million less than the estimate for 2007-08.

2.2: The growth in UK aid expenditure on environmental protection and climate change

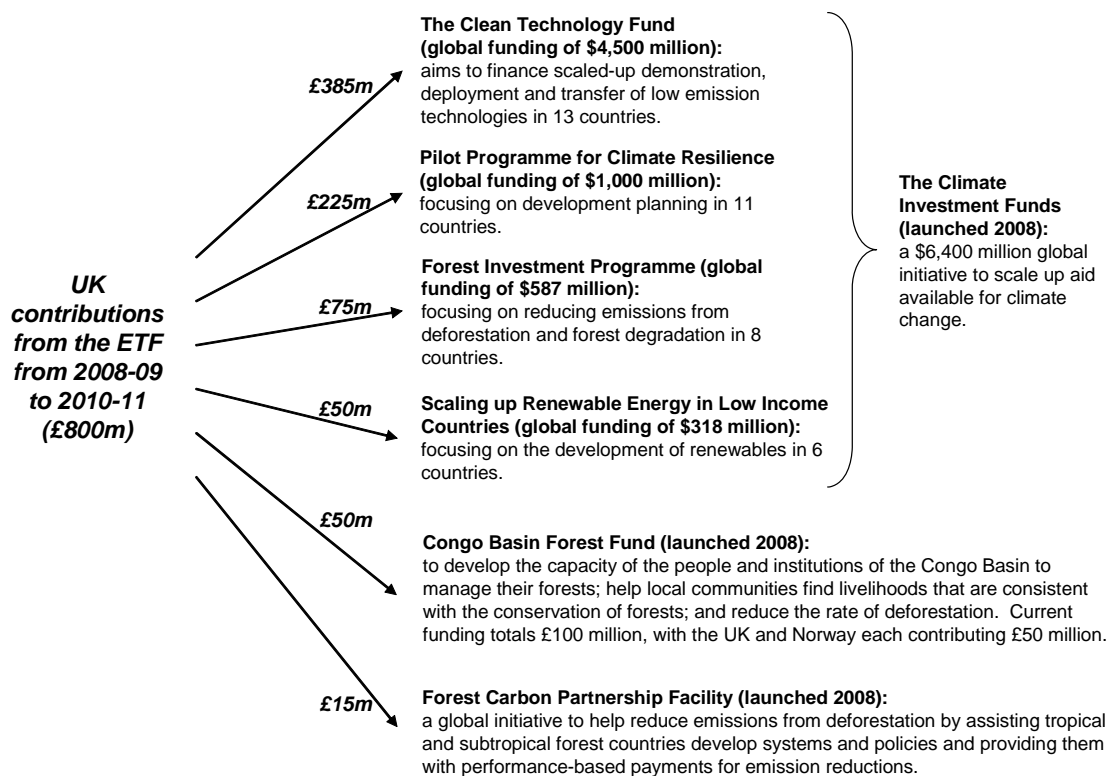


Note: As mentioned in 2.1 paragraph iv, the 2009-10 value for multilateral aid is not available. The value included in the diagram is an estimate based on values in previous years.

Source: NAO presentation of data from DFID including from Statistics on International Development 2005-06 to 2009-10, October 2010, pages 101 and 102

- i. Aid spending directly attributable to environmental protection and climate change by all departments has risen over the last five years from £102 million in 2005-06 to around £360 million in 2009-10. Despite this large increase, expenditure on environmental protection and climate change remains a relatively small part of the aid programme. As a percentage of total aid spending, it has risen from around 1.5 per cent (2005-06) to around 4.5 per cent (2009-10).
- ii. Most of the increase in environmental expenditure over the last few years is due to the introduction of the Environmental Transformation Fund (ETF) in 2008-09. More details on the ETF are given in 2.3.

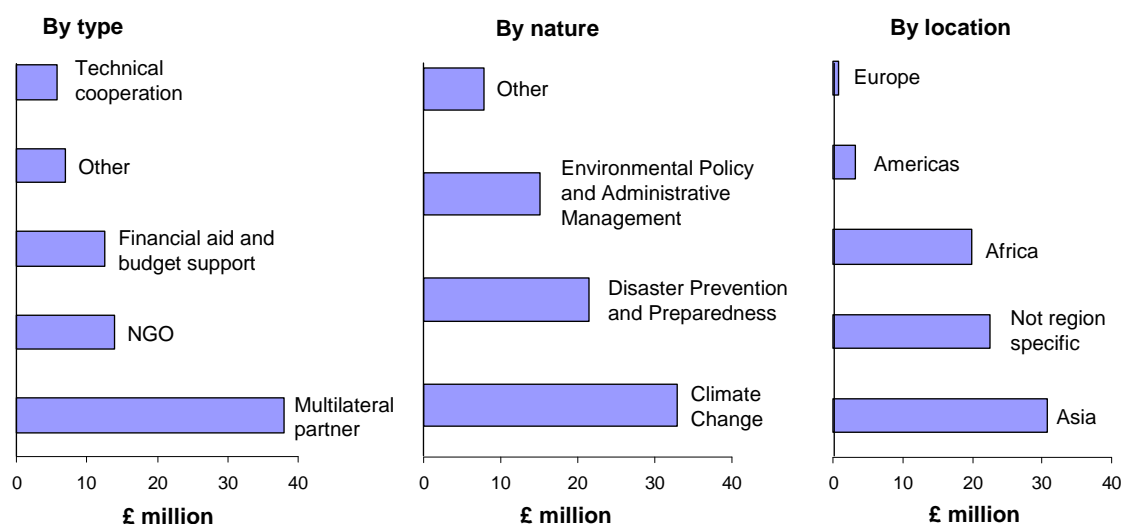
2.3: Environmental Transformation Fund expenditure



Source: NAO presentation of DFID data; Climate Investment Funds and UN Fast Start websites

- i. The Environmental Transformation Fund (ETF) was announced in 2007 with two distinct elements – a domestic £400 million fund and an international £800 million fund, both covering the three year period from 2008-09 to 2010-11. All references in this report are to the international element of the UK ETF.
- ii. DFID and DECC have made equal contributions to the ETF: £50 million each in 2008-09, £100m each in 2009-10, and £250m each in 2010-11. Of the £800 million total funding, £735 million has been directed towards the Climate Investment Funds, which were created in 2008 to scale up funding available for climate change and secure transformational development in recipient countries.
- iii. The Climate Investment Funds were announced at the UN climate change conference in Bali in December 2007, and became operational in 2008. As an interim measure, the Climate Investment Funds include specific 'sunset clauses' linked to agreement on the future of the climate change regime. Donor countries pledged resources on the launch of the funds, and there is no formal replenishment cycle. The funding provided is a mix of grants and highly concessional loans (i.e. very low or zero interest rates with repayments deferred for many years), with the intention of leveraging in up to eight times that amount in private sector investment.
- iv. In contrast to core contributions to multilateral organisations such as the World Bank and the Global Environment Facility, contributions to the Climate Investment Funds count as bilateral expenditure because the UK controls how much it gives to each fund.

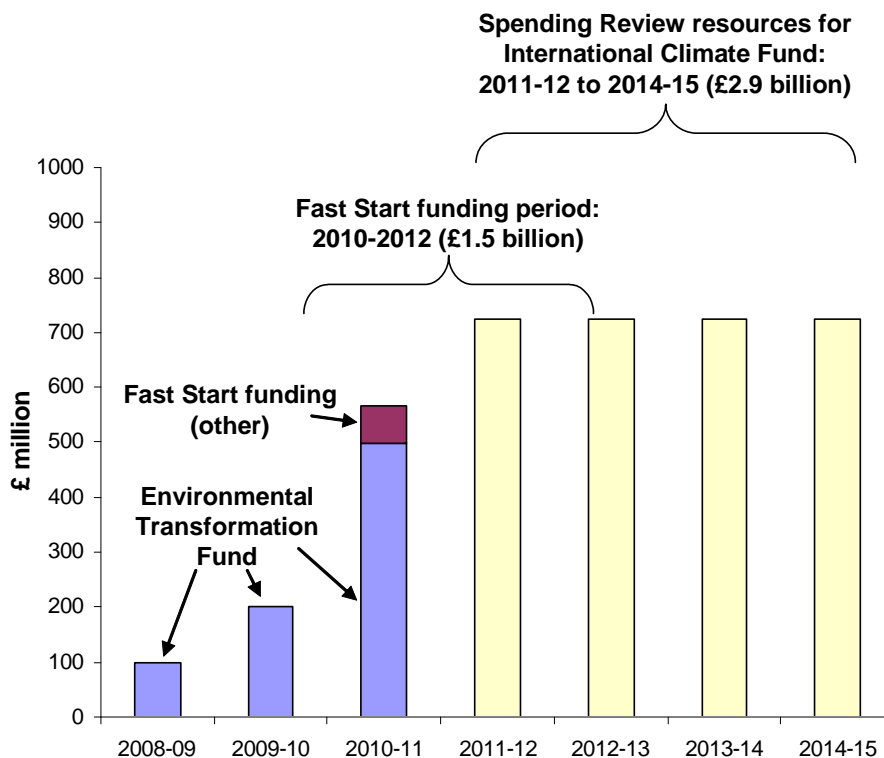
2.4: DFID's bilateral spending on environmental protection and climate change in 2009-10 (£77m)



Source: NAO presentation of data from DFID

- i. In addition to its funding of the Environmental Transformation Fund, £77 million of DFID's bilateral aid programme was directly attributable to environmental protection and climate change in 2009-10.
- ii. **Type of aid:** the main routes used by DFID to deliver its environmental protection and climate change bilateral aid in 2009-10 was to fund multilaterals and non-government organisations (NGO) to deliver specific projects. For example, DFID is providing £75 million over five years to a project in Bangladesh which focuses on adaptation and risk reduction measures and aims to protect and improve the lives and livelihoods of poor and vulnerable people by 2013. The project is being administered by the World Bank and UN Development Programme. Similarly, DFID is providing £20 million over three years for a project in Sudan to improve the sustainable and equitable governance, management and use of environmental resources. The project is being delivered by the UN Environment Programme.
- iii. **Nature of aid:** In 2009-10, around 43 per cent of the £77 million expenditure addressed climate change, 28 per cent was for disaster prevention and preparedness, and 20 per cent went to improve environmental policy and administrative management.
 - Climate change expenditure included £4.7 million on a project aiming to enable the Government of Indonesia to provide more effective leadership and management of climate change programming to deliver emissions reduction and poverty reduction outcomes.
 - Spending classified as disaster preparedness included funding a joint world bank / DFID initiative to ensure disaster risk reduction strategies are incorporated into developing countries' planning processes, including poverty reduction strategies.
 - Other expenditure includes the small amounts of spending DFID has categorised to biodiversity, desertification, site preservation and flood prevention and control.
- iv. **Location:** Countries receiving the most aid from DFID in 2009-10 were India (£10 million), Indonesia (£7 million), Sudan (£6 million), Bangladesh (£4 million), and Burma (£2 million).

2.5: International climate finance (2010-11 to 2014-15)



Note: In the absence of information on annual allocations, NAO have spread the resources available for the International Climate Fund evenly across all four years. In practice, the profile of expenditure is likely to increase over this period.

Source: NAO presentation of data from DFID

- i. The Copenhagen Accord, negotiated at the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in December 2009, included a commitment to provide new and additional resources approaching \$30 billion for the period 2010-2012 ('fast start' funding), with a long term goal of mobilizing jointly \$100 billion a year by 2020 to address the needs of developing countries. In response, the UK government announced that it would provide £1.5 billion fast start funding for international climate change projects to 2012. The £500 million which DFID and DECC will contribute to the Climate Investment Funds through the ETF in 2010-11 will count towards this pledge. The UK has also committed £68 million of fast start funding in 2010-11 in support of forestry initiatives and the Global Environment Facility.
- ii. The Comprehensive Spending Review has resulted in a large increase in UK funding for climate finance. A £2.9 billion International Climate Fund has been established for the period 2011-12 to 2014-15. Of this, DFID will contribute £1.8 billion, DECC £1 billion, and DEFRA £0.1 billion. It is planned that the International Climate Fund will reach 7.5 per cent of UK ODA by the end of the Spending Review period (2014-15). The previous government proposed in 2009 that international climate finance should not exceed 10 per cent of ODA.
- iii. The International Climate Fund will be managed by a high level cross-departmental project team with representation from DFID, DECC, and Her Majesty's Treasury. DEFRA will also be involved in decisions on the use of the International Climate Fund for forestry.

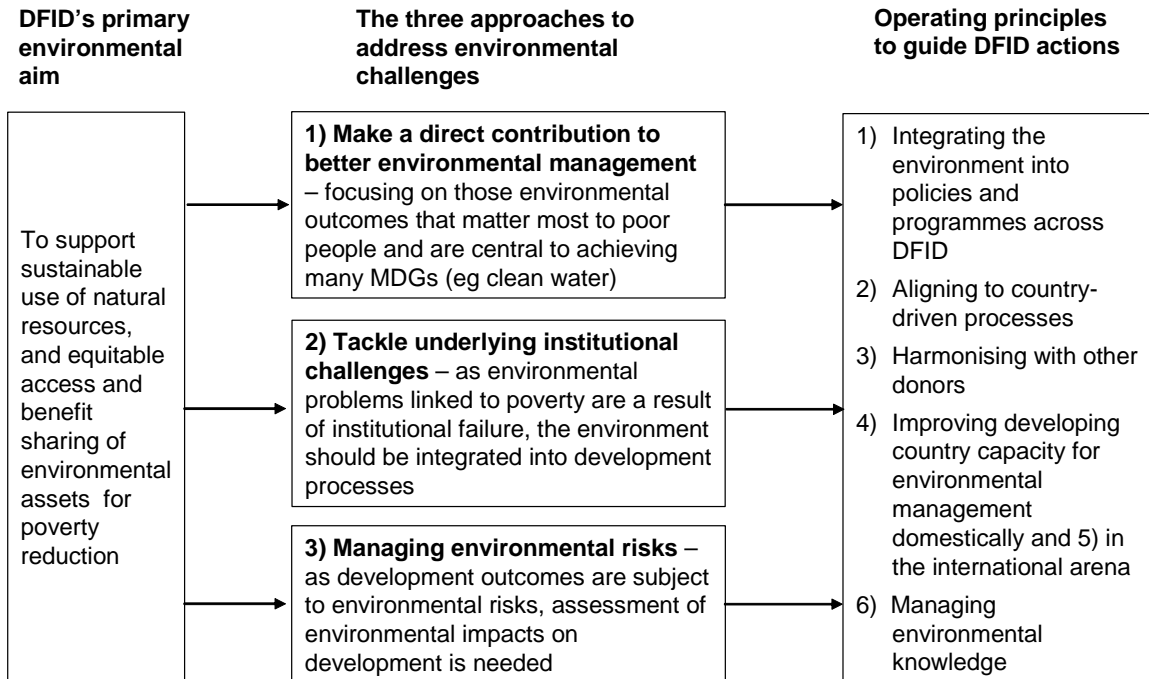
Part 3: DFID's aims and indicators for environmental protection and climate change

Main findings

- The results of environmental protection and climate change programmes, such as those aiming to help countries to adapt to the impacts of climate change, can be difficult to measure.
- It is difficult to use DFID's 2008-09 to 2009-10 performance measurement regime to assess the effectiveness of its past environmental protection and climate change programme. Those corporate performance measures and indicators which addressed environmental protection and climate change focused on global processes and levels of funding, rather than results which could be attributed to DFID's own activities.
- During 2011, DFID intends to develop methodologies and indicators to track the impact of its environmental protection work and the cross-departmental International Climate Fund.
- Combating climate change is one of DFID's six priorities for 2011-2015. As part of delivering this priority, DFID plans to: introduce a new Advocacy Fund to help countries take part in international climate change negotiations by September 2011; develop a new forestry programme by March 2011; and make its own programmes more "climate smart".
- DFID's Business Plan for 2011-12 to 2014-15 says little about the actions it intends to take to address environmental protection issues other than climate change.
- DFID remains committed to supporting the achievement of the United Nation's Millennium Development Goals (MDGs), including the Goal for improving environmental sustainability. The UN's June 2010 report on the MDGs showed global success in reducing consumption of ozone depleting material and argued that this demonstrated that action on climate change "was within our grasp", but "a decisive response was urgently needed". The UN also concluded that the rate of deforestation shows signs of decreasing, but is still alarmingly high.

3.1: DFID's approach to the environment (2006-10)

The diagram summarises DFID's most recent policy on the environment, issued in 2006 under the previous administration and setting out the basis for DFID's past approach. This is not a current policy document. The new government has yet to set out its policy on aid and the environment.

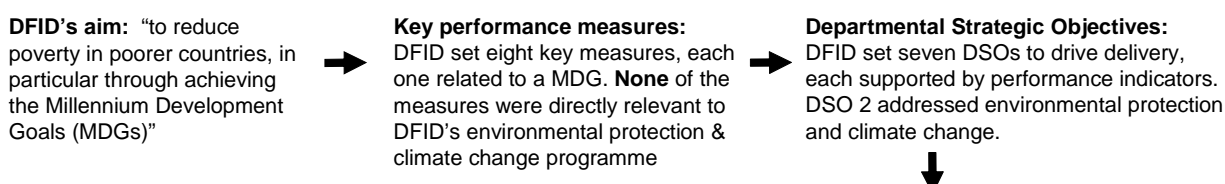


Source: NAO summary of DFID, *DFID's approach to the environment*, 2006

- i. The new administration has set out its key actions for climate change and the environment in its Business Plan for 2011-12 to 2014-15 (see 3.2). It has not yet, however, set out DFID's overall policy on the environment. The last policy issued in 2006 covered, but did not centre on, climate change issues.
- ii. DFID's contribution to **better environmental management** would be through:
 - assistance with broader objectives, such as improved livelihoods for poor people, where environmental objectives are a significant component;
 - addressing global and regional environmental challenges, such as climate change, which undermine sustainable poverty reduction; and
 - working directly (e.g. by funding projects) to achieve environmental outcomes important for sustainable poverty reduction, such as improved resilience to climate change.
- iii. **Tackling underlying institutional challenges.** DFID said in 2006 that the challenge was to "strengthen work on governance, growth, trade and country-drive planning, so that it can also achieve pro-poor environmental management."
- iv. **Managing environmental risks.** DFID assesses the environmental aspects of its projects through a screening procedure (see 4.3), and from 2011 has begun to assess the impact of climate change on each of its country-programmes (see 4.2).

3.2: Coverage of the environment and climate change in DFID's performance framework (2008-10)

This diagram summarises DFID's performance framework in place under the previous administration. Departmental Strategic Objectives are no longer used by departments.

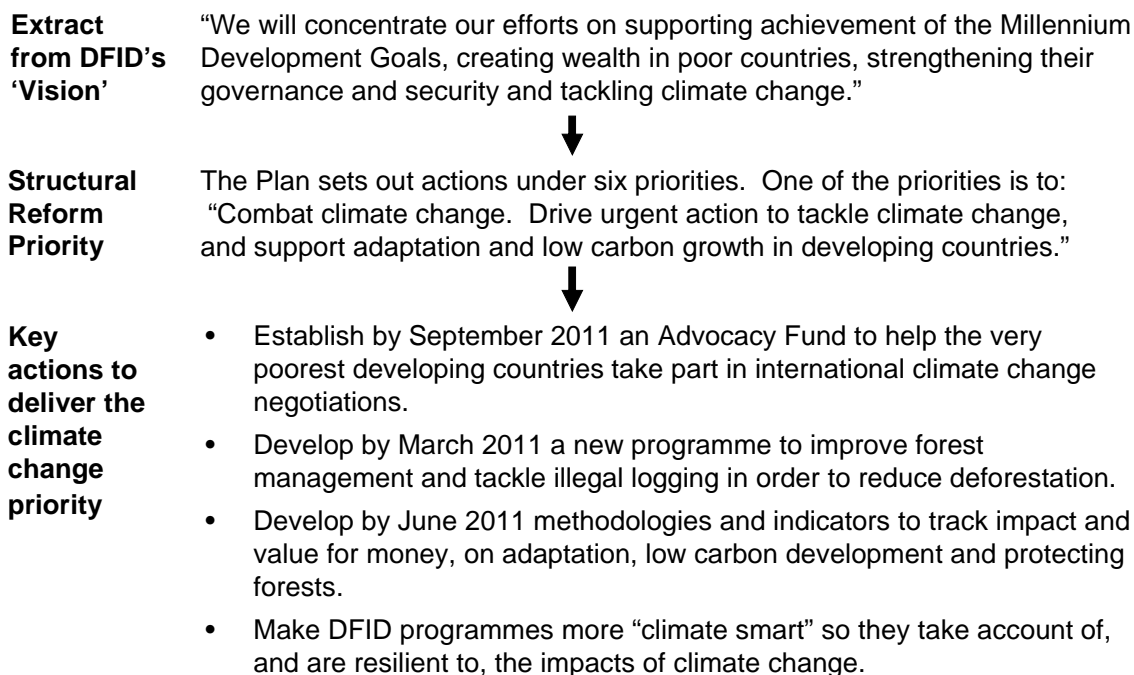


DSO 2: Promote climate change mitigation & adaptation measures & ensure environmental sustainability		
Performance indicator	Baseline	Progress at March 2010
Policies & programmatic approaches developed for effective climate change mitigation and adaptation measures in developing countries.	No countries had clean technology or climate resilient plans under the international Climate Investment Funds (CIF). No low income country had comprehensive, integrated and implemented climate adaptation policies and plans	Thirteen Clean Technology Fund national and regional plans endorsed for US\$40 billion of CIF support. Seven low-income countries and two others had been accepted as participants in the CIF supported Pilot Programme for Climate Resilience
Coherent international support for climate change mitigation and adaptation	In 2007, total financing provided for climate change was US\$25 billion	By March 2010, US\$117 billion finance for climate change had been leveraged
Environmental sustainability integrated into developing country programmes	Of 158 countries, 54% had at least 1 environmental target for MDG7 in 2006	No update provided by DFID

Source: NAO presentation of information from DFID, including *Resource Accounts 2009-10*, page 99

- i. Like all aid donors, DFID faces major challenges in assessing the relative contribution its programmes make to the environmental and other outcomes it wishes to achieve. Outcomes are driven by many factors, including the actions of developing countries and other donors, and the impact of social, economic and environmental variables.
- ii. It is difficult to use DFID's 2008-10 corporate performance measures and indicators to assess the past effectiveness of its environmental protection and climate change programmes as:
 - its eight key performance measures did not directly address the core elements of its environmental protection and climate change programme. For each MDG, DFID selected a single measure from those which the UN provided for assessing progress. For the MDG for ensuring environmental sustainability, DFID chose the measure for improving access to drinking water and sanitation. The UN's other measures for this MDG included carbon dioxide emissions and the land areas covered by forests (see 3.5);
 - the indicators for the Department's Strategic Objectives (DSOs) addressed progress at a global level on environmental protection, rather than identifying the results arising from DFID projects or DFID's share of the results from jointly funded projects; and
 - the outcomes of some environmental protection and climate change programmes (eg how well a country is adapting to a changing climate) can be difficult to measure in the short to medium-term. DFID's performance indicators focused on inputs (such as funding), or processes (such as plans prepared and implemented).
- iii. DFID is currently developing new environmental protection performance indicators (see 3.4).

3.3: DFID's priorities for environmental protection and climate change in its Business Plan



Source: NAO presentation of material from DFID's Business Plan for 2011-12 to 2014-15

- i. DFID's Business Plan sets out its priorities for the next four years (2011-12 to 2014-15). The **vision** section of the plan makes clear that the Department will continue to give priority to achieving the United Nation's **Millennium Development Goals**.
- ii. The Business Plan makes climate change mitigation and adaptation a priority. Wider environmental protection issues are not addressed specifically in the Plan, with the following exceptions:
 - the key action to reduce **deforestation** may have environmental benefits beyond climate change; and
 - as part of making its programmes "**climate smart**", DFID is designing a programme of organisational change which aims to ensure it has the capability to respond to climate and environmental challenges. The programme, led by a DFID board member, is likely to include building skills, knowledge and evidence. As part of the programme, DFID is introducing new strategic climate reviews of its country programmes and new environment and climate screening procedures for its projects (see 4.2 and 4.3).

3.4: Environmental protection and climate change performance indicators for 2011-15

DFID Business Plan	<p>The Plan includes a small set of input and impact indicators which are intended to help the public to assess DFID's performance. These are likely to include two climate change measures:</p> <ul style="list-style-type: none"> • DFID's spend on climate change; and • the number of poor people better able to cope with the effects of climatic change through support from DFID funded projects.
DFID country and departmental operational plans	<p>Operational plans will set down the poverty reduction, environmental, and other results DFID teams will deliver during 2011-15. They will include standard indicators so that results can be measured in a standard way across DFID. The intention is that these indicators will cover climate change and environmental protection, though it may take some time for these to be developed.</p>
International Climate Fund	<p>The Government plans that the International Climate Fund (ICF) will have a strong evaluation framework. It is intended that the ICF strategy will include targets and indicators to measure performance.</p>

Source: NAO presentation of DFID material, including from DFID's Business Plan for 2011-12 to 2014-15

- i. **Business Plan:** As part of finalising the indicators by March 2011, DFID carried out a public consultation in January 2011. DFID plans to publish updated data for each of the indicators in its Business Plan at least once per annum as part of its wider transparency agenda. It regards transparency as fundamental to improving its accountability to UK citizens and citizens in the countries in which it works, and in delivering value for money.
- ii. **Operational plans and the International Climate Fund:** In 2009, DFID developed a set of climate and environment indicators to strengthen its ability to monitor the environmental impacts of its activities. The Department's Business Plan commits the Department to develop by June 2011 methodologies and indicators to track impact and value for money on adaptation, low carbon development, and protecting forests (see 3.3). This work, which is at an early stage, is likely to inform the indicators to be included in operational plans and the International Climate Fund strategy.

3.5: Global progress against the Millennium Development Goal for environmental sustainability

MDG Targets

Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss

Halve by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation

By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

UN assessment of progress at June 2010

The rate of deforestation shows signs of decreasing, but is still alarmingly high. The unparalleled success of the Montreal Protocol covering ozone-depleting substances shows that action on climate change is within our grasp. A decisive response to climate change is urgently needed.

The world has missed the 2010 target for biodiversity conservation, with potentially grave consequences.

The world is on track to meet the drinking water target though much remains to be done in some regions. With half the population of developing regions without sanitation, the 2015 target appears to be out of reach.

Slum improvements, though considerable, are failing to keep pace with the growing ranks of the urban poor.

Source: NAO presentation of material from the United Nations, *Millennium Development Goals Report*, 2010

- i. Each of the MDG targets is supported by one or more indicators. In total there are ten indicators for this MDG:
 - the proportion of land area covered by forest;
 - CO₂ emissions (total, per capita and per \$1 GDP);
 - the consumption of ozone-depleting substances;
 - the proportion of fish stocks within safe biological limits;
 - the proportion of total water resources used;
 - the proportion of terrestrial and marine areas protected;
 - the proportion of species threatened with extinction;
 - the proportion of population using an improved drinking water source;
 - the proportion of population using an improved sanitation facility; and
 - the proportion of urban population living in slums.
- ii. For 2008-09 and 2009-10, DFID choose as its key performance measure for this MDG the proportion of people using a safe drinking water source and having access to basic sanitation in 22 priority developing countries in South Asia and Sub-Saharan Africa. In July 2010, the DFID report "DFID in 2009-10" showed that:
 - nine of these 22 countries were on-track to achieve the target to halve the proportion of the population without sustainable access to safe water;
 - two were off-track in that the countries were making progress but too slowly to reach their target by 2015. Continuing at the same rate, they would however reach their target in at most twice the time (ie by 2040);
 - eight were seriously off-track in that the countries had made still slower progress or had regressed; and
 - for the other three countries there was insufficient data to assess their progress.

Part 4: Current developments within DFID and the wider landscape

Main findings

- The bilateral and multilateral aid reviews will determine the future composition of DFID's aid programme. The results of the reviews should be published in early 2011. As part of the bilateral aid review, each of DFID's country teams has set out what results they will deliver over the next four years for each of DFID's six priorities - one of which is combating climate change.
- The multilateral aid review will inform DFID's decisions over the funds it will provide each multilateral organisation in the future. The effectiveness and relevance of each multilateral organisation has been assessed against ten criteria, one of which takes account of climate change and environmental sustainability.
- DFID's new strategic climate reviews aim to assess the potential impact of climate change on a developing country's national growth and development, and to help identify an appropriate response by DFID, the developing country and other partners. The first reviews are due to be completed by May 2011.
- New project screening procedures introduced in January 2011 seek to ensure that DFID's decisions on which aid projects to undertake, and how to undertake those projects, are informed by assessments of climate change and environmental issues. Projects should "do no harm" and where appropriate positively impact on climate change and environmental outcomes.

4.1: DFID's 2010-11 reviews of its bilateral and multilateral aid programmes

What is the purpose?	To ensure UK aid delivers best value for money, by targeting it where it is needed most and will make the greatest impact.	
What is the timing?	Both reviews started in summer 2010 and are due to be completed in February 2011, with consolidated results to be published soon after.	
	Multilateral aid review	Bilateral aid review
What should be achieved?	<p>The review aims to:</p> <ul style="list-style-type: none"> • help multilaterals which play an important role in international aid become more effective; and • provide analysis to underpin DFID's funding decisions. 	<p>The review aims to determine: which countries will receive DFID aid; how much they will receive between 2011-2015; how aid will be delivered; and the results expected.</p>
What is the process?	Each multilateral funded by DFID has been assessed against 10 criteria, covering its effectiveness and its relevance to the UK's development and humanitarian objectives.	Each of DFID's country teams have developed costed bids setting out the results they could deliver against the six strategic priorities set out in DFID's business plan (see 3.3).
How is the environment and climate change covered?	Climate change and environmental sustainability was a major element of one of the 10 criteria (see more detail below).	Combating climate change is one of DFID's six priorities (see more detail below).

Source: NAO presentation of material from DFID

- i. **Multilateral aid review:** One of the ten criteria used to assess multilaterals was cross-cutting effectiveness. This criteria covered i) climate change and environmental sustainability, ii) promotion of gender equality and iii) and adaptation to fragile contexts. With respect to climate change and environmental sustainability, DFID examined, for each multilateral, whether:
 - the institution has a climate change and or/ environmental strategy or framework for guiding policies and resource allocation;
 - there is specific policy guidance on the issues at the country level and whether this is applied in all countries;
 - the institution has adequate environmental and climate safeguards and whether these inform institutional practices; and
 - climate change and environmental impacts are measured and whether these are incorporated in the institution's own performance/results systems.
- ii. **Bilateral aid review:** There is little in the public domain on how environmental considerations have been covered in the review. The bids prepared by DFID country teams were reviewed internally by technical advisers and then scrutinised by a panel of "independent" experts. DECC was represented on the review panel and participated in the scrutiny of a number of bids.

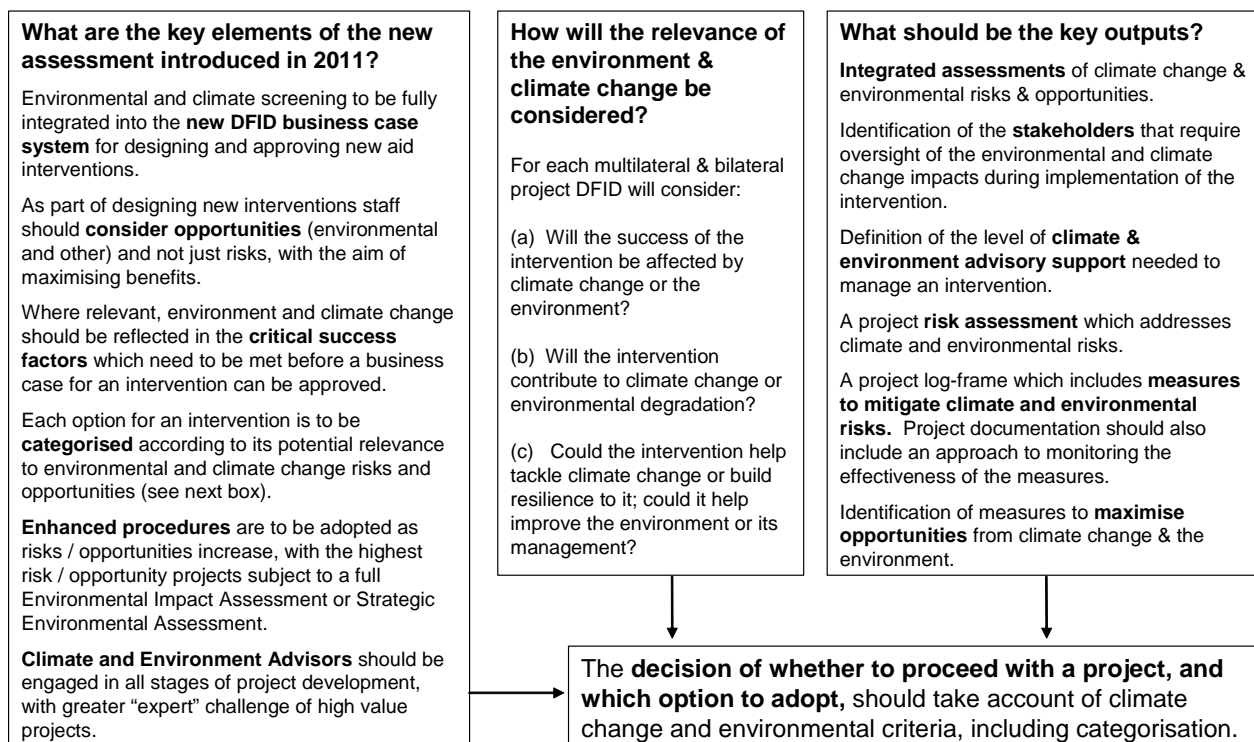
4.2: DFID's new strategic climate reviews of its country programmes

What is to be achieved?	<p>Each Strategic Programme Review will support a DFID country office to develop an understanding of the potential impact of climate change on a developing country's national growth and development, and help identify an appropriate response by DFID (and its development partners) in current and future programmes and investments.</p> <p>Taken together, Strategic Programme Reviews will consider.</p> <ul style="list-style-type: none"> • how DFID can raise the general level of staff engagement and skills in climate change issues around the Department; and • how DFID can reduce the carbon footprint of its overseas estate.
What is the process?	<p>Reviews are intended to:</p> <ul style="list-style-type: none"> • be participatory, involving other in-country UK government counterparts, donors & partners where possible; • develop an assessment of the developing country's vulnerability to climate change, and the risks to national development objectives; • assess the capacity of government and other key stakeholders to respond to the risks; and • build on existing tools and approaches, including those used by other donors and partners.
What is the timing?	<p>DFID is undertaking six pilots to develop its approach before full roll-out across all DFID country-teams. The pilots are in Ethiopia, Nepal, India, Tanzania, Caribbean and Rwanda and are due to be completed by May 2011, with Nepal the first due for completion in April 2011.</p> <p>All DFID country programmes to be reviewed by 2013.</p>

Source: NAO presentation of material from DFID

- i. DFID considers that ensuring that country plans take into account climate and environmental impacts is an important mainstreaming activity. It has strengthened its strategic planning by introducing Strategic Programme Reviews for all country programmes.
- ii. Mainstreaming climate change requires that, in addition to 'climate proofing' programmes and projects, DFID needs to ensure that its future development plans (and ultimately those of partner governments) are actively designed to reduce vulnerability to climate change and build on opportunities for achieving low carbon and climate resilient development.

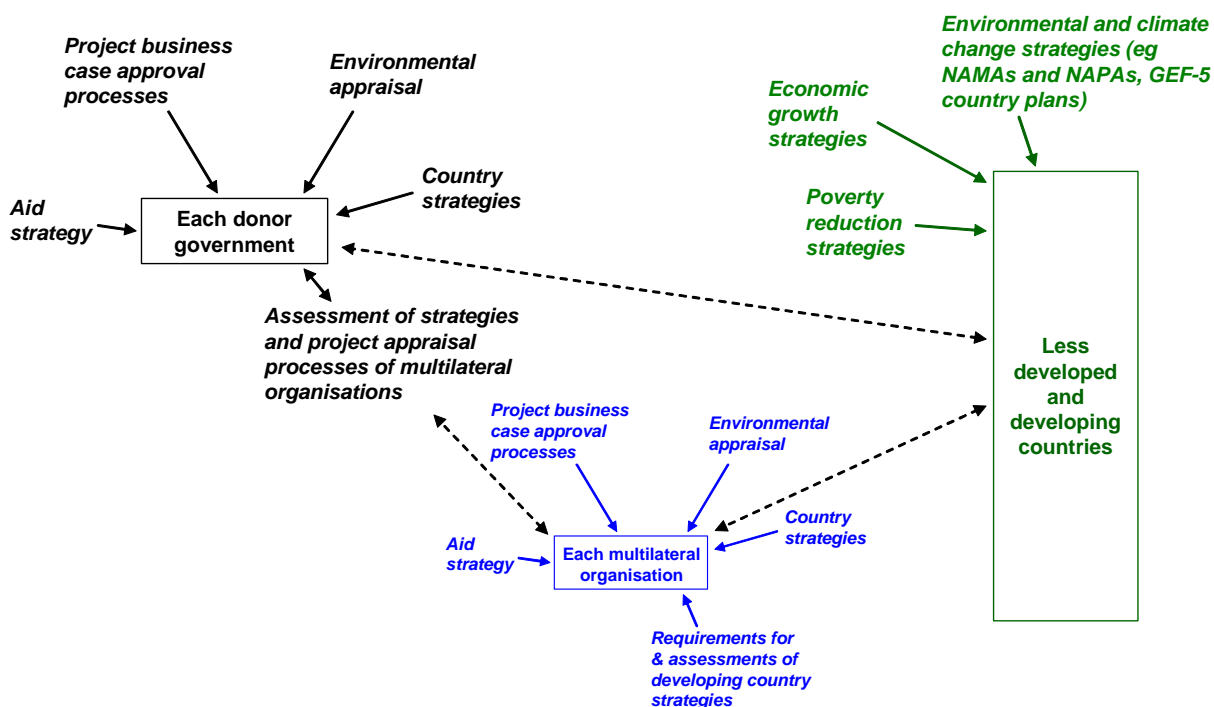
4.3: DFID's new approach to climate and environmental assessment



Source: NAO summary of DFID material, including "Technical How to Note, Climate Change and Environment", January 2011

- i. In 2006, the previous EAC was critical of the quality of the Environmental Screening Notes (ESNs) prepared by DFID to assess and address the environmental risks associated with its activities. It concluded that the ESN system needed serious reform. The EAC said that DFID needed to ensure that it had sufficient skills to undertake the process properly and that its country offices addressed the actions identified in ESNs.
- ii. Following the Committee's Report, DFID commissioned an external review of ESNs and the Department has reported that the review's recommendations for changes to the ESN system were made in 2006-07. A second review of the ESN system was undertaken in 2009, concluding that further changes were required, including:
 - climate change should be integrated into the ESN;
 - the ESN should be undertaken early as part of DFID's process for developing an intervention; and
 - DFID needed to improve its ability to monitor, evaluate and audit project impacts on the climate and the environment throughout the life of projects.
- iii. The previous Committee's concern about the sufficiency of skills to screen DFID's projects reflected its wider conclusion that DFID did not have sufficient environmental capacity. DFID has increased its capacity substantially in this area since 2006 when there were only 14 Environment Advisers. It now has 70 Climate and Environment advisers (with MSc level qualifications or equivalent), of which 42 are based overseas.

4.4: The wider strategic landscape



Source: NAO

- i. UK government processes for developing aid strategies and for project assessments are mirrored by similar processes other donor governments and multilateral organisations undertake. In order to coordinate aid and utilise it more efficiently, there has been a growing awareness of the need for developing countries to take more ownership of, and responsibility for, the aid they receive; and for developed countries in turn to rely increasingly on the poverty reduction, economic growth and environmental strategies that developing countries produce.
- ii. There have been various environmental initiatives affecting developing countries, including:
 - ‘National Action Plans for Adaptation’ (NAPAs), intended to set out how developing countries will adjust to the impacts of climate change and launched in 2003 alongside the creation of the Adaptation Fund under the United Nations Framework Convention on Climate Change. The World Bank provided \$50 million of funding to support the production of NAPA strategies by developing countries.
 - ‘Nationally Appropriate Mitigation Actions’ (NAMAs), intended to set out transparently what steps developing countries are going to take to limit emissions growth. NAMAs originated in the UN climate change conference at Bali in 2007 as a way of providing assurance in return for emission reduction commitments by developed countries.
 - ‘National GEF Portfolio Identification’ exercises. The multinational Global Environment Facility is adopting a more strategic approach to its current funding period (2010-14) based on expanding country support programmes and on developing country plans to enhance country ownership and provide an opportunity to base aid on national priorities.

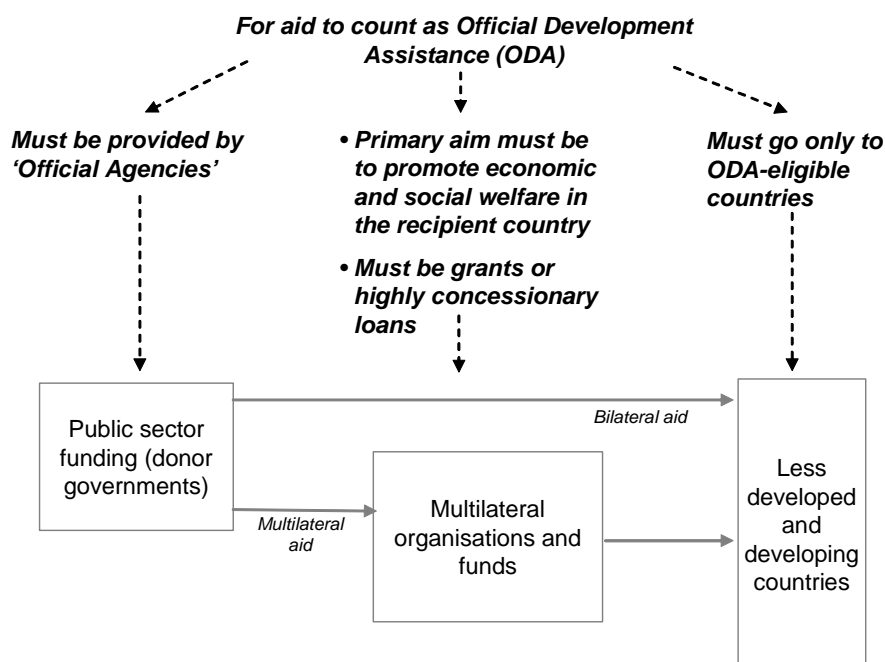
The extent to which donor countries rely on such strategies and the utility of them is unclear.

Part 5: International Comparisons

Main findings

- The United Nations has set a target for donor countries to provide 0.7 per cent of their Gross National Income in net aid. The UK has not met this target, but its figure for 2009 (0.52 per cent) compares favourably with the average among OECD donor countries (0.31 per cent). The 2010 Spending Review has resulted in a large increase in the UK's aid budget. The UK government now plans to meet the UN target by 2013 and to make its achievement a statutory requirement from 2013 onwards.
- On the basis of publicly available information, UK aid expenditure against OECD indicators for environmental protection and climate change in 2009 appears relatively low, but revised data submitted by DFID to the OECD significantly improves the UK's ranking. Care needs to be taken in drawing international comparisons as donor countries do not report such data on a consistent basis.
- Donor countries have made pledges under the United Nations 'Fast Start' initiative to provide \$30 billion of climate change aid over the period 2010-12. The UK has pledged £1.5 billion (\$2.3 billion), the second highest amount of any donor country.

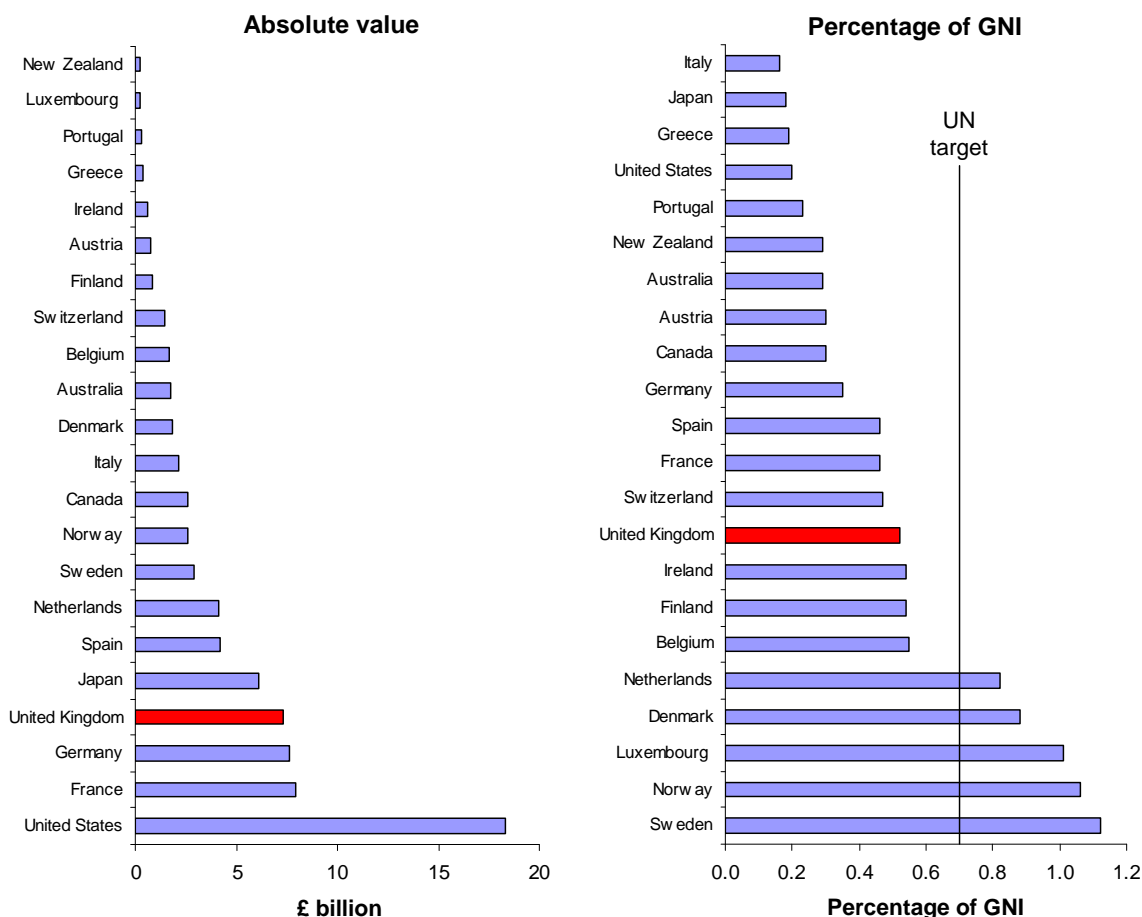
5.1: How ODA is provided



Source: NAO

- i. The current framework for international development assistance originated in 1961 with the creation of the OECD and, within it, the Development Assistance Committee (DAC). Since then, the DAC has been responsible for defining Official Development Assistance (ODA) and monitoring it. Complex rules govern the range of activities, and the percentage of their funding, which count towards ODA.
- ii. Donor countries provide aid directly to developing countries through various bilateral programmes. They also channel aid to various multilateral programmes and funds managed by the World Bank, the UN Development Programme (UNDP), the UN Environment Programme (UNEP), the Food and Agriculture Organisation (FAO), multilateral development banks (MDBs), and other international organisations. These multilateral organisations provide a mechanism for coordinating and strategically managing aid flows. They offer a mixture of grants, concessionary and non-concessionary loans, and they can also raise additional money from the interest they receive on loans.
- iii. Development aid has focussed mainly on health, education, economic development (including investment in traditional fossil fuel infrastructure), and food production. Until the 1990s, little aid was provided for climate change mitigation or adaptation. This was partly because measures to address mitigation, in particular, were considered to contribute to global benefits rather than country-specific benefits, and would therefore not normally count towards ODA. In practice, however, the DAC has relaxed the application of ODA rules to allow climate change mitigation funding to count as ODA.

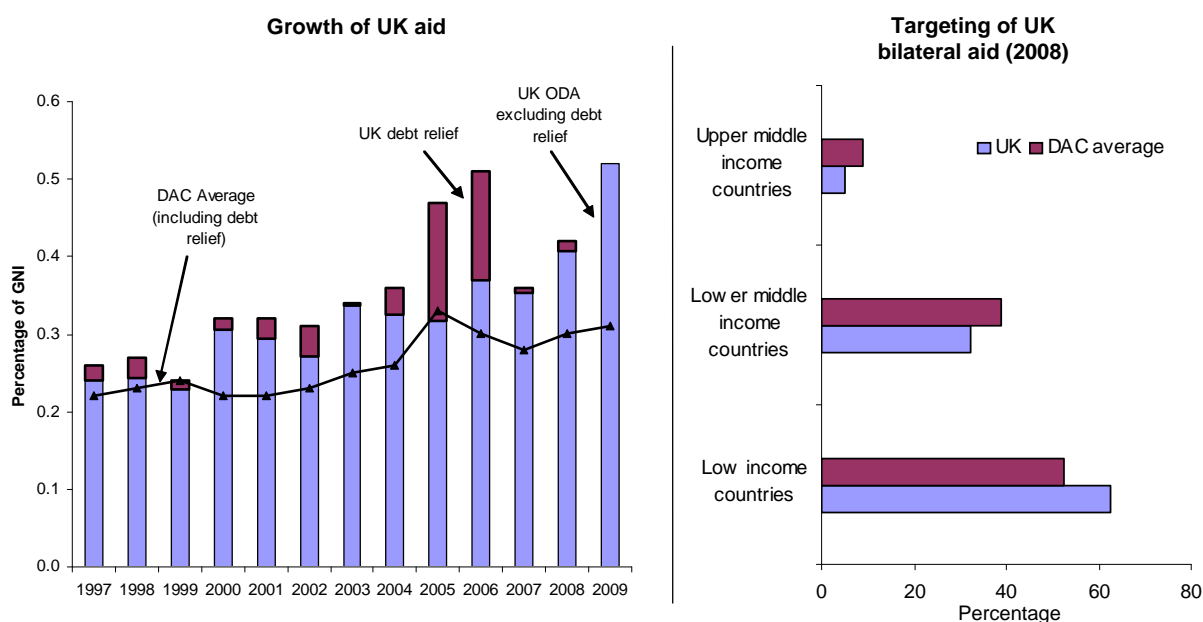
5.2: Official Development Assistance in 2009 by donor



Source: NAO analysis of data from the OECD Creditor Reporting System database

- i. Since 1970, the UN and the OECD have adopted a target for developed countries to provide 0.7 per cent of their Gross National Income (GNI) as foreign aid to developing countries. Donor countries regularly report flows of Official Development Assistance (ODA) to the Development Assistance Committee (DAC) of the OECD. The DAC monitor and report aid flows, including performance against the 0.7 per cent target.
- ii. In 2009, the UK ranked fourth among donor countries in terms of the amount of ODA provided (£7.4 billion). UK aid constituted 0.52 per cent of UK GNI – somewhat below the 0.7 per cent target but higher than other major European countries such as France and Germany and 0.2 per cent above the DAC average.

5.3: Growth and targeting of UK aid spending

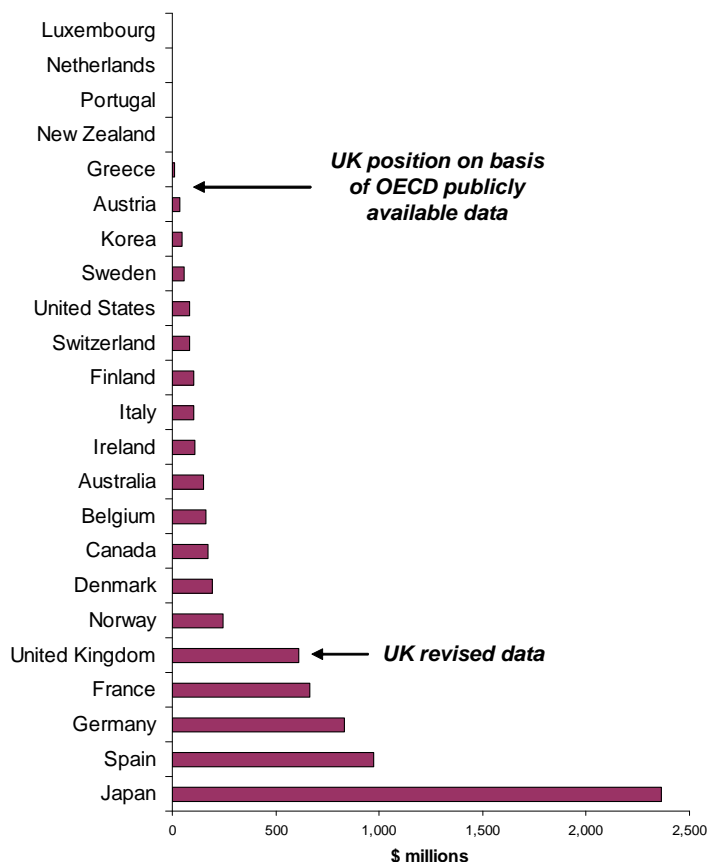


Note: 2008 is the latest year for which information is available on the targeting of aid by all DAC countries

Source: DFID, Statistics on International Development 2005-06 to 2009-10, October 2010, pages 17 and 93

- i. UK spending on ODA has risen from 0.26 per cent in 1997 to 0.52 per cent in 2009. Spending Review 2010 has resulted in substantial further increases in planned UK expenditure on aid, and the UK government intends to enshrine in law the commitment to meet the UN's 0.7 per cent target from 2013 on. The UK's relatively high ODA/GNI ratios in 2005 and 2006 arose from substantial sums of debt relief being provided in those years.
- ii. DFID has aimed to focus its aid increasingly on low-income countries. This has helped raise the percentage of the UK's total bilateral aid which goes to low-income countries to 63 per cent in 2008 compared with the DAC average of 52 per cent.

5.4: Expenditure against the ‘Rio markers’ in 2009



Source: NAO analysis of OECD data for total cash expenditure in 2008 on all three Rio Markers

- i. The OECD’s Development Assistance Committee (DAC) collects the only source of data on environmental and climate change expenditure by donors. Since the 1990s, the DAC has monitored the flows of aid dedicated towards the three international treaties which flowed from the Rio Earth Summit of 1992 – the UN Framework Convention on Climate Change, the UN Convention on Biological Diversity, and the UN Convention to Combat Desertification. The above figure shows total cash expenditure on all three Rio Markers.
- ii. UK aid has been primarily orientated towards poverty reduction. On the basis of publicly available OECD data, the UK ranks relatively low when assessed on total expenditure against all three Rio markers. However, DFID has identified under-reporting against the markers because its systems did not track all spend relevant to them. It is now improving these systems and has recently submitted revised expenditure data to the OECD for 2008 and 2009. On the basis of the revised figures, the UK ranked fifth among the 23 DAC donor members in 2009.
- iii. Care should also be taken in drawing international comparisons from the Rio marker data. There may be inconsistencies between countries in the type of aid expenditure they consider relevant to Rio marker objectives, and in the extent to which their financial systems allow them to track such expenditure accurately. Countries may also report adaptation expenditure under the Rio marker for climate change mitigation. The OECD DAC has now addressed the latter by introducing from January 2010 an additional marker for aid expenditure on adaptation.

5.5: Fast Start funding (2010 to 2012)

Fast start funding pledges covering 2010 to 2012

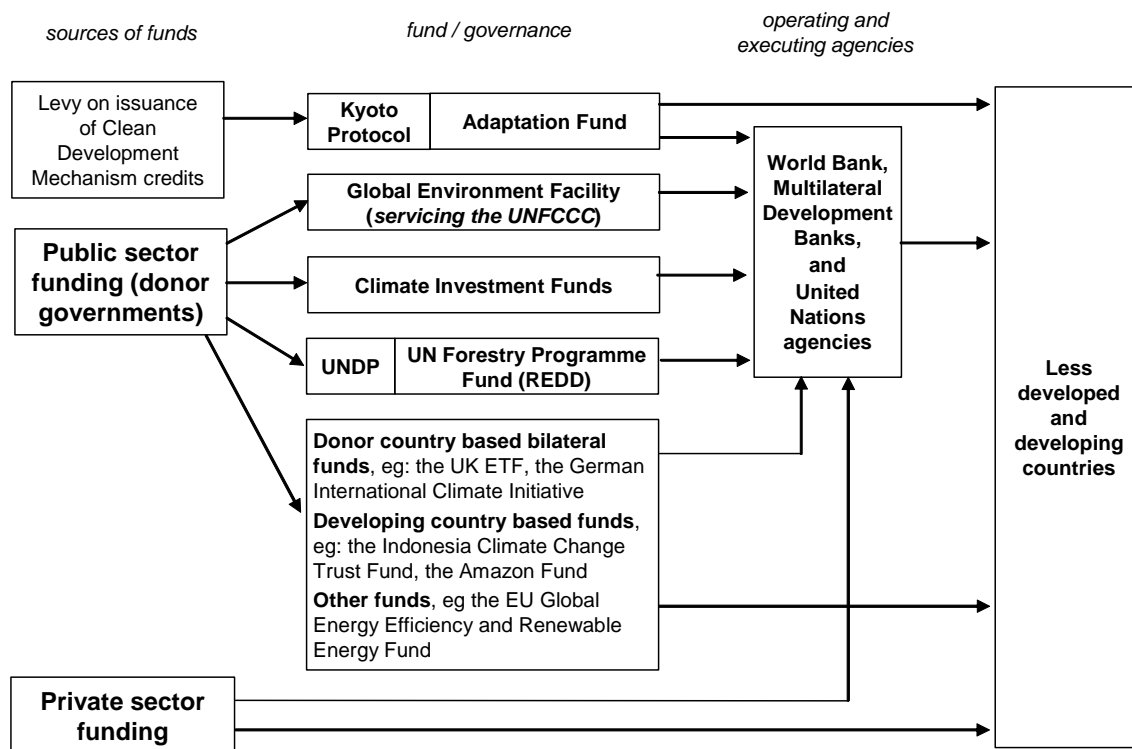
	Pledged \$ million	Committed \$ million
Japan	15,000	
United Kingdom	2,327	881
United States		1,700
France	1,697	1,697
Germany	1,697	385
Sweden	1,054	
Norway	1,000	382
Australia	599	
Spain	494	
Netherlands	409	409
Canada	398	
Denmark	212	55
Belgium	198	55
European Union	198	66
Finland	145	
Switzerland	144	
Portugal	47	16
Luxembourg	12	12
Slovenia	11	
Iceland	1	
Malta	1	
	25,644	5,626

Note: 'Committed funds' refers to resources approved for specific projects and programmes

Source: UN Fast Start website at www.faststartfinance.org (accessed January 2011)

- i. In the Copenhagen Accord of December 2009, developed countries committed themselves to providing new and additional funding resources approaching \$30 billion for the period 2010-2012, with balanced allocation between adaptation and mitigation. Funding for adaptation was also to be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing states, and Africa.
- ii. Based on data on the UN Fast Start website, the current level of pledges by donor countries to provide 'Fast Start' funding amount to nearly \$26 billion over the 3 year period 2010 to 2012 (not including the US for which no pledged figure is shown). Many of the pledges were made early in 2010 when developed countries had already finalised their 2010 budgets and aid allocations. It is therefore unclear to what extent the pledges represent "additional" funding (as required by the Copenhagen Accord) rather than the re-allocation of existing funding streams, or the extent to which they count as ODA.
- iii. As at December 2010, funds committed totalled \$5.6 billion. In December 2010, the EU produced a progress report on fast start funding by EU member states. It found that:
 - in 2010, the EU had mobilised €2.2 billion of fast start funding in 2010;
 - this had been committed to mitigation (48 per cent), adaptation (33 per cent), and forestry (16 per cent), with 21 per cent remaining unallocated;
 - the breakdown by multilateral and bilateral aid was 57 per cent and 43 per cent respectively; and
 - the breakdown by loans and grants was 52 per cent and 48 per cent respectively.

5.6: Monitoring climate change financing flows



Source: NAO

- i. The existing landscape for financial support to developing countries for climate change mitigation and adaptation is complex.
- ii. The sixteenth Conference of the Parties to the United Nations Framework Convention on Climate Change in Cancun (COP 16) in December 2010 will lead to further changes in the landscape. COP 16 adopted a decision to establish a Green Climate Fund under the financial mechanism of the Convention to help provide finance for developing countries' climate change mitigation and adaptation actions. The fund will be under the guidance of and accountable to the COP, and developed and developing countries will be equally represented on the Fund's Board. The World Bank will act as the interim Trustee of the fund, to be reviewed after three years. A committee is to be set up to design various operational aspects of the fund and will make its recommendations at COP 17 in Durban at the end of 2011.
- iii. COP 16 did address the issue of transparency in delivering climate finance. The final agreement includes provision for a new registry to record developing country efforts to reduce emissions and to match those actions with finance and technical support. It also provides for tracking finance in a common reporting format. This should promote clearer accountability in the delivery of funds against donor pledged commitments.
- iv. COP 16 also confirmed the commitment made by donor countries in the 2009 Copenhagen Accord to provide fast start funding approaching \$30 billion and to mobilise jointly \$100 billion a year by 2020 in long-term funds.

ANNEX: References

This briefing has been based on a range of documentary sources as well as information provided by DFID. Sources include the following:

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