

## Topic: Aid and Trade

**Question: How can UK firms capitalise on the short and long term opportunities being created by the UK aid budget to trade and invest in developing markets?**

### Concept outline

The UK's USD 3.8bn in bilateral aid to African countries is second only to the US<sup>1,2</sup>. Yet, between 2014 and 2018, the UK was only fifth in the volume of direct investment into Africa. At \$17bn, it was far behind China's \$72bn, France's \$34bn, the US's \$31bn, and the UAE's \$25bn<sup>3</sup>.

How can the UK increase investment flows to and from Africa in a way that reflects its position as one of the biggest aid donors to the continent?

The answer does not require an uneasy alliance between aid and trade, seeing the most marginalised groups disadvantaged<sup>4</sup>. Our solution represents a shift in Global Britain's relationship with the Global South - moving away from a donor-recipient relationship to one based on equality, economic cooperation and shared prosperity. Bringing together innovation and financing to those who need it most.

Our solution – the Developing Markets Innovation Challenge (DMIC) – focuses on how UK stakeholders can connect to deliver primary benefits (poverty reduction) and secondary benefits (opportunities for businesses) at a scale not realised today. It proposes bringing stakeholders as such the UK diaspora and investment community, into Overseas Development Assistance (ODA) programme delivery, to raise funding for tested innovations. Our three-part model will do the following:

#### – Connect

The DMIC team will deploy at identified innovation hubs around the UK – such as the Faraday Institution for energy storage in Oxford – to design a challenge. In designing the programme, the Challenge team will gather relevant stakeholders, including HMG, the private sector, UK diaspora, recipient country representatives and academic institutions. Stakeholders will work to establish three criteria:

1. What are the target country needs?
2. Are there market-ready innovations to address these needs?
3. What is the investment interest?

The DMIC team will design a challenge fund centred on clear primary benefits and potential secondary benefits.

#### – Test

The DMIC team will run a competition, awarding grants to innovations for developing markets. Innovations must have both clear development and economic potential – including market expansion or opening opportunities rather than crowding out existing local markets. Grants will initially be small in scale – consistent with current DFID challenge fund practice. The DMIC team will monitor the results throughout the grant and evaluate approaches with a view to upscaling successful programmes.

#### – Scale

Using DIT's relationships in the investment sector, the DMIC team will host roadshows providing information on successful projects and those with further investment potential. The DMIC team will work with UK diaspora investors, whose connections to the local market often mean increased focus on impact indicators and greater understanding of financial risk. Further roadshows will showcase these initial investments to attract larger institutional investors.

The project uses DFID and DIT's strengths and experience delivering primary and secondary benefits through ODA-funded programmes. Especially DFID's approach of using challenge funds to identify innovation and DIT's strong connections with the UK diaspora and business communities looking to invest and engage abroad.

<sup>1</sup>OECD "Development Aid at a Glance: statistics by Region," 2018 edition. Accessed via: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Africa-Development-Aid-at-a-Glance-2018.pdf>

<sup>2</sup>DFID "Statistics on International Development: Final UK Aid spend 2018," September 2019. Accessed via: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/857904/Statistics-on-International-Development-final-aid-spend-2018d.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/857904/Statistics-on-International-Development-final-aid-spend-2018d.pdf)

<sup>3</sup>Tony Blair "Britain must open a new chapter in its relationship with Africa," The Guardian. 20th January 2020. Accessed via: <https://www.theguardian.com/global-development/2020/jan/20/britain-must-open-a-new-chapter-in-its-relationship-with-africa>

<sup>4</sup>"World's poorest risk losing out as Brexit Britain pushes 'aid for trade'," Reuters. 17th July 2018. Accessed via: <https://www.reuters.com/article/us-britain-eu-aid/worlds-poorest-risk-losing-out-as-brexit-britain-pushes-aid-for-trade-idUSKBN1K71S9>

## Tackling challenges

### 1 Where to test this model

The UK has a wealth of innovation hubs – we've spoken to representatives from healthcare technology, financial technology, and agricultural methodology. Time and again, though, experts pointed to crucial UK innovations with regards to the problem most in need of large-scale, collaborative effort: climate change.

UK Government has committed to tackling climate change globally. The UK low carbon economy is estimated to grow by 11% annually between 2015 and 2030 – four times faster than the economy as a whole – and could deliver up to £170 billion in exports by 2030<sup>5</sup>.

Western Africa has been identified as a climate-change hotspot with crop yields and production being significantly impacted<sup>6</sup>. Unaddressed this could have serious socioeconomic impact in the region.

There's a clear development need connected to addressing climate change. Our solution could deliver both poverty reduction and green business growth, creating better outcomes for aid and trade.

In talking with experts at DFID, DIT, BEIS and the private sector, we've identified battery technology as a clear UK expertise which is market-ready and of considerable interest in developing countries. Batteries also present an opportunity for synergies with areas of UK investment outside of ODA programming, including the BEIS-funded Faraday Challenge for batteries, which has clear potential for solutions to be brought to developing markets. As it is centred in Oxford, there's also a clear hub for battery technology development in the UK.

### 2 Where to connect these batteries

Nigeria – having the largest population of households in Africa living off the main electricity grid<sup>7</sup> – heavily relies on diesel generators, with a capacity at least twice that of grid-connected power plants<sup>8</sup>. The environmental and financial impacts of the generators create significant burdens on local populations<sup>9</sup>. Low-cost battery technology will improve access to more consistent electricity – either through the main grid or from off-grid solar PV-hybrid solutions – while decreasing dependence on dirty, expensive diesel generators.

A strong federal system also means engagement can be led through state governments with closer connections to local communities. The Nigerian diaspora in the UK is considerable and highly engaged in Nigerian investment<sup>10</sup>.

### 3 Through the UK diaspora community

Investors are likely to have a better understanding of the business environment and ways of working in their heritage country. Personal and cultural connections have also traditionally meant that diaspora investors are more focused on social impact returns than institutional investors. Through diaspora engagement, companies can scale and build an investment history to attract further financing from institutional investors.

We've spoken to battery companies, diaspora groups, energy investors and government representatives to test the possibilities for the DMIC to focus on battery innovation in Nigeria. Groups such as the Faraday Institution, Nigerians in the Square Mile, the African Foundation for Development, AMTE Power and the Impact Investing Institute have all stated their interest in participating.

## Toward a new model of ODA

Battery storage represents an exciting first step for the DMIC – but the programme is not limited to this area. After piloting the approach on battery innovations in Nigeria, the DMIC's model of Test, Connect and Scale can be rolled out to other areas of UK innovation. For example, we've identified regional innovation hubs with development impacts, including climate smart agriculture (Lincolnshire), health technology (Cambridge), financial technology (London), and cooling technology (South Wales).

As for cost, the DMIC is based on the tried and tested HMG system of challenge funds. These funds – from those run by DFID in international development to those run by UKRI for UK industrial strategy – are recognised a cost-effective way for HMG to identify innovations<sup>11</sup>. The additional Scale phase will be based on the cost of road-show development and delivery – designed as low cost means to leverage external investment.

The DMIC can help bring these innovations to the people who need them most at a scale to make a lasting difference and a sustainable impact.

<sup>5</sup>UK Government Clean Growth Strategy, "UK business opportunities of moving to a low-carbon economy," report commissioned by the Committee on Climate Change.

<sup>6</sup>Dan Shepard "Global warming: severe consequences for Africa", AfricaRenewal magazine, December 2019 – March 2020. UN Department of Global Communications.

<sup>7</sup>"Rapid market assessment of energy storage in week and off-grid contexts of developing countries," Vivid Economics and Imperial College Consultants. Data from Dalberg, 2018.

<sup>8</sup>IFC, 2019

<sup>9</sup>Ibid

<sup>10</sup>Nigerians in the Square Mile, "Nigeria Investment Survey 2015 – London Responds" Accessed via <http://www.nism.co.uk/news/nigeria-may-be-scary-from-safar-but-it-is-far-from-scary/>

<sup>11</sup>Valeria Izzi and Becky Murray. "Between value for money & development impact: some reflections for the Global Challenges Research Fund", LSE Impact Blog. February 2019. Accessed via: <https://blogs.lse.ac.uk/impactofsocialsciences/2019/02/26/between-value-for-money-development-impact-some-reflections-from-the-global-challenges-research-fund/>

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