

International Development Committee

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

Tuesday 16 October 2018

Ordered by the House of Commons to be published on 16 October 2018.

[Watch the meeting](#)

Members present: Stephen Twigg (Chair); Mrs Pauline Latham; Mr Ivan Lewis; Lloyd Russell-Moyle; Paul Scully.

Questions 1-30

Witnesses

I: Nick Mabey, Chief Executive, E3G; Dr Rebecca Nadin, Head of Risk and Resilience, Overseas Development Institute; and Clare Shakya, Climate Change Group Director, International Institute for Environment and Development.

Q1 Chair: Good morning and welcome, everyone. This is the first evidence session in our inquiry into the role of UK aid in combating climate change. We have an hour or so with our three witnesses, and we are seeking to cover 10 questions, so the opener will be for all three of you, but most of the others will be targeted to one or two of you. Please, when you first answer, give a little introduction to yourself.

Can I start with a broad opening question: what role do you see international development playing in combating climate change, and what are the risks if the international development community fails to rise to the challenge of climate change? Perhaps we could just go across, starting with Rebecca.

Dr Nadin: Thank you very much. My name is Rebecca. I work as the head of risk and resilience at the Overseas Development Institute, but for the past eight years I was a climate risk adviser to the Chinese Government.

Climate change and development are clearly linked. Many of our development choices have in fact created the problem of climate change, but most importantly it is the underlying vulnerabilities in development that climate change acts as a stressor on. So the ability of human and natural systems to cope with climate change is fundamental as climate change places greater pressure on those systems. UK aid has a fundamental role to play in supporting countries to understand those vulnerabilities and also build the capacity to cope with climate change.

One of the most important points about climate change is that it is in fact a systems risk, so we cannot diversify away from climate change. There is no Planet B. So it is really important to understand that, if we are thinking about responding to climate change, that actually requires a systems approach—so not just looking at the biophysical impact, but those secondary impacts of climate change. How do we transform our economies, the politics, the institutions, the regulations and so on that support response measures?

Q2 Chair: That is great. Thank you very much. Clare.

Clare Shakya: I am Clare Shakya. I am the director of the climate change group at IIED, and I have got a history of working with DFID in their climate change work for some years before moving to IIED.

The 1.5° report has just come out, and it really does speak to the development challenge. The evidence for the severity of impacts, even at 1.5°, has changed. It is much more significant than we thought. It is just one analogy that I would use: if you were being offered to get on a plane with a 66% chance of survival, would you get on? This is what we are doing with our planet right now. It is existential.

There are limits to adaptation. We are already seeing night-time heat that is affecting numbers of people, particularly the elderly and women, and

increasing mortality in Europe, as well as in places like India and Pakistan, where we can imagine there will be huge movement as places become less and less tolerable—small islands, coastal communities, all with similar threats, and agriculture-based economies, which is a large part of the developing world.

So delivering the SDGs in light of climate change requires a huge shift in how we do development, and we are not seeing that change fast enough. We have got to be looking to tackle the underlying drivers of poverty, resource degradation and climate change together. Fundamentally, that requires the basis of good development. It requires making our choices differently, understanding what the long-term direction is going to be. No country has developed in the way that we now need to in light of climate change. This requires a huge effort. It requires rethinking the way we do things—thinking about agency, subsidiarity, where decisions get made and how we strengthen national institutions so they are actually able to respond to these changing risks.

Q3 **Chair:** Brilliant, that is great. Thank you. Nick.

Nick Mabey: Hello. I am Nick Mabey. I am the CEO of E3G, and before that I worked in the UK Government in both the Prime Minister's Office and the Foreign Office, and in development before that.

Obviously, I agree with the other two witnesses, but the role of the development institutions is really quite clear, in that we have got to simultaneously change every economic system and quite a lot of social and political systems globally in two decades. We are not going to invent a completely new architecture of institutions to do that. There are obviously institutions we have already, from the multilateral development banks, to development aid, to think-tanks. It is going to be critical to do that. They have to change what they do, because, as the other witnesses have said, it is different.

Climate aid is different for four reasons. First, on outcomes, it has to deliver a certain outcome in a certain period of time, or it doesn't work. That is not like poverty reduction. You don't destroy the ability to reduce poverty if you miss it by 10 years, but you do with climate change. It is also a critical interest for the UK and UK citizens directly. If other countries don't mitigate, we suffer directly. There are other second and third-order risks, but there is also a direct risk. We are also on a 3°C to 3.5°C trajectory, even if we want to get to 1.5°C to 2°C. And that requires the whole world to change. We interact with a lot of the world that needs to change through development institutions, so we need it to work. That is a fundamental interest of the UK.

To do that we need to change what we do. First, we need huge leverage from our overseas development aid, because it is not going to solve it on its own. You have to leverage both political change, decisions and market changes, and that needs a whole-of-Government approach, as we have tried to develop on security and stability. It is part of my background. We

need to apply that to climate change; at the moment we are not doing that.

The final thing we need to do is learn, as Clare said. We know what a developed country looks like, but no one has got a net zero-carbon resilient society. As we are learning how to do it, we need to transmit those learnings and learn from others. That is an unprecedented set. That issue of learning being at the core of what we are trying to do is missing at the moment. People are trying, but that is one of the places where we really need to step up. Otherwise, we haven't got a chance to meet the pace of change we need. If we had a couple more decades, I would be a lot more confident, but we explicitly need to learn how to change.

Chair: Thank you. That is excellent and gives a really good starting point for our inquiry and other questions today.

Q4 Mrs Latham: This is specifically for Clare, but others might want to chip in. Do you think that the UK allocates enough money to international climate finance? Should some of it come from other budgets outside of the UK's ODA?

Clare Shakya: I guess the ideal situation, that we do not have with any country yet, is that the ODA commitment is there and there is an additional allocation for climate finance, just because the amount of finance we are looking at is so small. I wouldn't say that we should have climate finance that is not ODA, though, because the ODA definition is broad enough to include the type of support that is needed for climate finance.

Globally at the moment, there is such a small amount of climate finance, and what it is doing is not sufficient in terms of changing the way the rest of finance works, whether that is core development or private investment flows. Just 18% of climate finance reaches the poorest countries; that is slightly better for the UK—for the UK it is about 30%. The EU is about the same; Sweden and Denmark are above, at 40%. But if you think that the 47 poorest countries, the least developed countries as a block, are only getting 20%, that is just not equitable. There is 3% of the emissions but 20% of the support to tackle the implications.

The leverage of private finance is critical to this, and that has been very much part of the innovation that we have been seeing in the international development community in the past couple of years. But the reality is that, for the poorest countries, that is very hard to do. Even in renewables they are getting only 1% of their finance for renewables. It is the simplest bit of the climate action for private finance to come in on; only 1% is from the private sector.

It is important to get that private sector leverage. The amount of finance we have got for climate finance is never enough, and we have to shift how the rest of the development works. That leverage is a critical part of it. We also need to understand that, for those poorest countries, you need to

build the institutions, the policies, the systems, so that they can attract the private finance in the first place.

It is not just the amount. The biggest issue for me is around the quality of the finance. Currently, there is very high intermediation. We have just done some analysis—a survey going from every end and every part of the climate finance system, end to end—and everyone is saying it is highly intermediated. There are all sorts of downsides to that; one is the cost. If you have lots of different people in the chain passing the finance through, you can lose up to half of it just on admin costs.

The other side of it is that you do not get this learning process; there is no feedback loop. If you have got loads of people in the chain, there is no way for those at the end of the finance to say, “This finance is not working for us. It is not coming in the right form, and it is not coming for the right things.”

On the quality side, just \$1 in \$10 in climate finance is committed for the purpose of reaching the local level. We need longer term, better quality finance that is prepared to build the systems in the countries and to do the learning that helps us shift the way that development happens. That requires early-stage finance. It needs to be risk-taking and flexible, and it needs a lot of learning and support to go alongside it.

Nick Mabey: We need to focus on quality immediately, but we also need to look at some of the quantity with other budgets. We could do a lot more with the expertise we have in the UK and by leveraging that into other Governments. I am not sure that that is an ODA job. We have other budgets. We can do a lot more with the innovation budget to do things such as low-carbon construction, which we are putting some money into here. We need to ensure that that is fit for purpose for the countries where we will build most things using cement and steel, which is not the developed world, but the developing world. The trade and export credit budget could be leveraged away from oil and gas exploration into this area.

Lastly, one of the ways we could leverage more private finance is to take more risk on our Government balance sheet through the multilateral development institutions, such as the World Bank. In the discussion over the next year, we will be looking at how to get better value for money out of those institutions, but that will probably mean a contingent liability on the UK balance sheet, which will not be an ODA charge, but a real economic thing. That could be one of the biggest ways of increasing the flow of capital, particularly to the Caribbean and some of the harder-to-invest places in the world that are suffering from a withdrawal of private investment because of climate change.

Q5 Paul Scully: Thank you for very much for coming. Clare, there are three main Departments that spend international climate finance: BEIS, DFID and DEFRA. Do you think we are channelling the right amount of money into each of those Departments?

Clare Shakya: I guess the starting point is that, at its best, it works well. You are bringing different perspectives and bringing different expertise. Within BEIS, the understanding of how to build a national energy system that is able to take on more renewables is much deeper and stronger than it will ever be in DFID. Within DEFRA, there is a very strong commitment to tackling deforestation. That is part of its DNA in a way that it is not so much any more in DFID.

The reality is that unless you get this co-ordination really working, it is more cutting the pie in different places, with sectoral bubbles around them. At the moment, BEIS focuses on the high emitters, which makes sense given their expertise, but that energy transformation has to happen in the poorest countries as well, and they are all part of regional energy systems. If you are not using hydro most effectively, you cannot bring as much wind into the system. There are all sorts of implications for the expertise within the different Departments that is not being co-ordinated in the way that it could be. There are particular aspects of that. There was at one point collaboration between BEIS and DFID on some energy projects in Africa. BEIS is now less involved with those, or the projects have been cut.

We are seeing a real reduction in that collaboration that was there at the beginning of the ICF process. The governance system worked very well to motivate greater collaboration; we are seeing that less. Within forestry, for example, DFID has real understanding and depth of expertise on governance systems, which is critical to addressing the drivers of deforestation, but we are not seeing the level of collaboration that we are used to. The risk is not how much finance is going to each, but whether it is incentivising deep collaboration between the Departments, which is less than it was.

Q6 **Paul Scully:** Yes, I was going to ask about that. What more do you think we can do to co-ordinate between the Departments?

Clare Shakya: The original governance system required each Department to sign off on the climate spend. It was clunky and time-consuming, and they have dropped it. The reduction in collaboration as a result is significant. So, I think that achieving a more streamlined collaborative process is what we should aim for. But bringing back that requirement that Departments actually look at each other's spend and give advice to each other, and begin to build a bit more collaboration across the Departments, is critical.

Q7 **Paul Scully:** Yes, I was going to ask about that, Nick, but also about how you think expertise is being shared between Departments.

Nick Mabey: I will come back to that, but the most worrying thing is that, having started the process of building a whole-of-Government approach, it was abandoned. They could have stopped at the first stage, which was co-ordination. We went through this on security and stability in the 2000s, and what happened when the first conflict pools didn't work was that we deepened and ended up with joint strategies across high-threat areas,

which Departments had to go with. So we went for deeper collaboration there because we realised that a whole-of-Government approach had to happen. In climate, people pulled back from it because of the first teething troubles with the first approach.

So, for me, there is a huge amount to learn from the work on stability and security about trying to blend together a political understanding, an economic understanding and a development understanding into a whole-of-Government approach around priority for UK engagement. The UK can't do everything, everywhere, and I think it needs to do some things well.

We've got to the point now where BEIS has identified a few places for strategic partnerships in Latin America and is moving elsewhere, but those should be whole-of-Government priorities, blending all of our instruments into one place. BEIS can't order that to happen, but I think that is the type of approach to take.

Again, let us learn the lessons from where we have been over 10 to 15 years; we have been doing that in other top-priority areas. And perhaps one issue is that climate change isn't a fusion doctrine, a whole-of-Government priority, so there is not a glue—a strategic glue that comes together—and just trying to glue people together with money doesn't work, as we found with the conflict pools. It is not sufficient—it is necessary, but not sufficient—to get the—

Clare Shakya: Yes. You need joint units.

Q8 Mr Lewis: These are questions primarily, I think, to Rebecca and Clare. Does the UK have the balance right between mitigation and adaptation in its international climate fund spending? Should we give more attention to loss and damage, in addition to mitigation and adaptation? How useful is the distinction between the two in programme development? What are the potential trade-offs between the two, and how can they be avoided?

Dr Nadin: It is good on one level that the UK has this commitment to 50:50 spend on mitigation and adaptation. My background is much more on the adaptation side, so I can speak to that more clearly.

We are already in a 1° world and, as Nick said, we are probably on a pathway to much higher than that. What we don't know enough about is what the adaptation requirements are in a 1.5° world? We don't know what they are like in a 2° world, and certainly not beyond that. There is not actually enough understanding of what the future costs of adaptation might be, both for the UK and for other countries in which the UK is trying to deliver aid.

As for a distinction between the two, from an organisation point of view, in terms of spend, I get it, and it's easier to track, but in terms of how you need to think about the problem, mitigation and adaptation are two sides of the same coin. There is a danger that, by separating the two and not looking at and exploring the synergies between them, you build in future risks down the road.



HOUSE OF COMMONS

For example, we are doing a project in Indonesia, which is part-funded by DFID. That project is about helping Indonesia to develop its low-carbon development plans, but the initial approach did not consider adaptation or climate risk to those low-carbon development plans. The project was focused on rolling out low-carbon development, so it had a very mitigation-type approach. However, in a warming world, it hadn't considered in the beginning what the impacts to the renewable energy plans would be. Also, it had not considered broader climate risks. So, you have the one dimension of climate risk, in terms of the biophysical impacts, but then from that there are other risks to climate: trans-boundary climate risk, but also transition risks.

In the contexts of Indonesia, the Indonesian low-carbon development plan was meeting the objectives of the UNFCCC, but they also had their country development plan. The focus or priority of that was high labour-intensive industry, which was well suited to the continuation of coal.

Actually, to ensure that the mitigation and low-carbon development policies can adapt to future climate change, they have to consider how they are going to manage that transition from a fossil fuel economy to a low-carbon economy, what they are going to do in terms of jobs and education, and what the future projections mean for the generation of renewable energy—particularly in the Indonesian case, it is a lot on hydro. Again, there need to be those synergies and projects where you can have mitigation and adaptation co-benefits, rather than creating potential maladaptation down the line.

Clare Shakya: I completely agree with Rebecca on the need to tackle both of those together, but I think that having a requirement to keep the balance of finance is important. At the moment, adaptation is the poor cousin. Just 20% of climate finance—\$22 billion—is currently for adaptation. We are seeing that gap grow. UN Environment estimated \$140 billion to \$300 billion a year is what is needed, and it is just \$22 billion. Oxfam estimates that half of that is actually real adaptation and the rest is just reporting on development as adaptation. That gap in finance is growing.

Moody's report this year on how they are assessing their environmental, social and governance safeguards for their sovereign risk rating identifies how climate risks are reducing the credit rating of countries, so it is becoming harder and harder for them to take a loan at a commercial rate. They identified certain types of countries as being specifically more likely to have had their credit rating reduced over the last few years—places such as the Solomon Islands, as a small island state; Ethiopia, because so much of its economy is from agriculture; and Cambodia, because so many of the people's jobs come from agriculture, even if the economy itself is not agriculture-based.

We need to make sure that we are doing a balance of effort, which is required under the Paris agreement. We have committed ourselves internationally to that balance of effort across adaptation and mitigation. It is important to track that that balance of effort is happening, but I agree

that we need to get the integration and we need to consider all these issues together in long-term strategies.

Loss and damage is a very tricky issue, but it is not just about development, and it is not just about adaptation finance, although it is also covered under what needs to happen under development and adaptation. We need to start considering it in wider foreign policy and in wider issues. Fundamentally, some places and some countries are becoming less and less viable as places to live. It is about setting a greater ambition for what we are trying to achieve in terms of getting this long-term vision in place, but then making sure the balance of effort is there for adaptation, mitigation and considering the limits of adaptation.

Chair: Very briefly, Nick.

Nick Mabey: There is a paradox here—that we need to measure the inputs in these two boxes to do the politics at an international level, but actually it creates perverse incentives at the national level. We are moving to a resilience paradigm—resilience to everything including climate change, the transition to climate change and the social tensions from climate change.

The UN SG's summit next year, where the UK is running the resilience stream, is a chance to tackle some of those issues that have been left around, which is really important, as well as issues such as the social contract—who is protected and who is not protected—which is an issue for the UK, as well as any other country or between countries. Those are frontier debates, and next year is going to be really critical. The UK could be a real pioneer for opening those debates in a different place than the UNFCCC, where they have a political history, because they are important for real things on the real ground, not just climate politics. That is one of the problems we have faced in the past.

Q9 **Lloyd Russell-Moyle:** I am interested to know what you, Rebecca and Clare—but do come in, Nick—think the limitations are on the current Government's methods for tracking ICF spend and tracking the impact in the longer term?

Clare Shakya: I have to say that one of the biggest shocks was leaving Government and realising how poor it is. Internally to the UK, we have a deep understanding of how our climate finance is being spent. That was my role within my final years of DFID—assessing that and looking at it for different divisions.

I know how good the information is on the inside and it is shocking to go outside and realise how poor it is. Basically, the way that climate finance is reported at the moment obfuscates rather than elucidates what is going on. It is no wonder that there is so little trust within the system that the finance actually exists and is doing anything.

First, a lot is not being disbursed. Countries are reporting on their climate finance and saying, "We have committed this amount," but it is actually tiny amounts. Last time we looked, it was just 11% of the entire climate

finance commitments made to date that had actually been disbursed. It is just a tiny amount actually on the ground doing anything.

The way we are reporting at the moment, you have no sense of what is real and what is just saying, "Anything I do on water, I am going to count as climate finance," which is what some Governments are doing. Some Governments are also counting work on coal. You know—hello!

We need a leadership group that is prepared to move beyond where we are at the moment and there are some signs of progress. To be honest, I think the UK system internally is the most robust that exists, and we get no credit for that at all, because it is not how it is reported internationally.

The way it used to be reviewed at cross-departmental level on the theory of change around transformation was a very high bar. That, I believe, has now gone. I understand that with this mainstreaming approach we do not have that any more, so the bar is definitely falling. But the UK did have a very good system and definitely was in the leadership role.

Irish Aid report each year to their partner Governments on how much is being spent and point out which programmes it gets spent in. Sweden had a trial of using the international aid transparency initiative approach of tracking climate finance for Bangladesh and setting up a national page on the IATI website for Bangladesh of what the climate finance coming in is, which at the moment only has Sweden's finance. There are ways of improving this. Until we do, the lowest common denominator is what we have. The way that finance is being reported means that there is no trust at all.

The other issue is around the results-based management. It is very well intentioned. We are trying to improve delivery by measuring it and by trying to get at the outcomes that Nick mentioned earlier that you need to measure success by. But at the moment it is creating all sorts of perverse incentives: megawatts, for example. Every country is aiming and competing with each other to fund the easy stuff, so wind in Turkana, for example. You had 10 MDBs and bilaterals all trying to give a guarantee at the same time. Whereas other more difficult stuff is not happening at all.

We need to be careful and understand what is going to create the transformation that we are looking to achieve and how we measure that in meaningful ways. At the moment, the way the finance and results are tracked is creating a system that just does not function at all.

Dr Nadin: On results-based financing in relation to adaptation, it is difficult to measure the impacts of adaptation because by definition adaptation is an iterative process. There is not an end point to adaptation. Some of the challenges for some of these projects and investments are that they require the results and the outcome needs to be very clearly defined, return on investment and so on.

But with adaptation it is an ongoing process. We also have not yet had the opportunity, certainly with policies, to see what adaptation policies might

or might not work. That was drawn out as well in the recent 1.5°C report, because of the timeframes required in order to evaluate adaptation outcome.

- Q10 Lloyd Russell-Moyle:** You mentioned that the UK internally at one point was very good. Are there particular changes that we could make for overseas spend that would increase that transparency? Are there any particularly easy wins and things that we could do?

Clare Shakya: Yes. We have Development Tracker in the UK, which is excellent. Everyone in DFID uses it because it's so much easier to use it to find out things than it is to use the internal system. Let's say we combined that with our climate finance tracking, which is a very robust system within the UK Government. It has its own code. You can track right down to the end delivery partner how much climate finance they are getting, for what component and why. It's justified within the system. The entire thing is there internally. We just need to put that into Dev Tracker. It's not there at the moment. It is only because I know what climate finance is going to what programmes that I can use Dev Tracker to say, "Well, where is it? How is that component spending right now?"

- Q11 Lloyd Russell-Moyle:** You make it sound incredibly simple—

Clare Shakya: It is simple.

- Q12 Lloyd Russell-Moyle:** We just need to link up the two.

Clare Shakya: Yes, it isn't difficult; it's not rocket science at all, and it would set the bar so high for the rest of the world. It is exactly what we should be doing.

- Q13 Chair:** Can I move us on to fossil fuels and perhaps start with Rebecca? The research that the ODI and CAFOD conducted into UK spending between 2010 and 2014 showed that, of ODA support for energy, 22% went to fossil fuels. And evidence we have taken from Platform showed that the prosperity fund was spending significant amounts of money on oil and gas projects. How far is the ODA, and indeed non-ODA, UK spend on fossil fuels in the poorest parts of the world undermining our efforts on climate change?

Dr Nadin: As you say, that was ODI research, but it was not carried out by me, so I can't speak to the specifics. On a very basic level, this is undermining our objectives. Especially given what we now know, and as is supported by the recent IPCC 1.5°C report, we should not be entering into programmes and spend that continue to support the fossil fuel economy.

- Q14 Chair:** Just so I am clear, would you say that we just should not have any of those programmes?

Dr Nadin: Well, you can't just turn this off overnight. As I said earlier, we need to be thinking about the transition. That is the critical point: how do you transition? I would argue that a significant component of those programmes should be looking at transitioning. This is if the circumstances or whatever don't allow it and they can't just discontinue. We need to be



HOUSE OF COMMONS

understanding what the just transitions are, how to support a move to different renewables—is that involving investment from BEIS in different technologies?—and so on.

Chair: That's great. Nick, do you have thoughts on this? And then Clare.

Nick Mabey: Yes, there are different steps. I think the first one is that all UK Government support should be stress-tested against the world we want to see, which keeps the UK safe.

Q15 **Chair:** Some of our evidence has talked about the idea of climate screening. Is that part of what you mean?

Nick Mabey: You can use screening; you can use stress testing; you can use scenarios—the private sector is now developing a bunch of tools. The UK is a shareholder in the AIIB. Half their investments are in gas networks in south-east Asia. They have no idea whether they are consistent with a world below 2° future—let alone some ambiguous discussions on coal in the region that our financiers are having. In some instances, this is just basic housekeeping. If we want a future, that is what we think keeps the UK safe. We should not be supporting investments not consistent with that. Beyond that, let's help the transition; let's actually lean into supporting the transition away. At the moment, we don't have the cross-governmental planning tools that we are supporting the private sector to have; we don't have that in our public sector or shareholdings in the MDBs.

Q16 **Chair:** On the stress tests, is there anyone we can learn from on this? Is there any country or multilateral—

Clare Shakya: Well, just within the UK itself, we have the International Development (Gender Equality) Act. It sets a test that requires us to set out, for every action, whether it is going to support gender equality and if not, why not. Do no harm is the minimum, but everything has to be justified on that basis. If we had something similar that went across Government and that actually required us to test any investment or any shareholder decision against it being climate-positive, we would be shifting things very quickly. Within the UK's ODA, there has been a test for some time that there has to be no alternative to coal before coal is invested in. Why do we not have that across the board? Why do we not have that for the oil and gas industry as a whole? If we were setting that type of change, we are actually a very significant shareholder in a lot of the places where those investments are being made.

Q17 **Chair:** I like the gender parallel—that is a really useful one, thank you. Are there any other countries that we could learn from on climate change?

Clare Shakya: The Dutch are looking at this at the moment. The Dutch have just done an internal review—I was part of the expert panel—on how they are going to set something. It has not come out yet so I do not know what they are finally deciding, but they are looking at setting some sort of test of this nature.



HOUSE OF COMMONS

Nick Mabey: The French are doing it as well. They are putting in a new strategy and a new system for monitoring. We also need to look at how, laterally, we give lots of export credits for military expenditure to small Gulf states. If the electric vehicle revolution takes off, which the UK wants and we are promoting, they will not be paid back. We have been stung by Saddam Hussein—there are billions hidden there off balance sheet. Again, these should not be things that are done easily.

People should be able to go somewhere in Government and say, "What should I be stress-testing against?" UN PRI have produced different scenarios for major investors including "Wait, wait, wait, crash, change," which investors and pension funds in the UK can use. There are several other scenarios being developed, but we do not have a UK set of scenarios that are applied consistently—a relatively straightforward thing to do for the Cabinet Office.

Q18 **Mrs Latham:** This is mainly for Nick. How could the UK be doing more on the international stage as a global leader on climate change and action?

Nick Mabey: To give credit, the UK is doing a lot of good work on the Powering Past Coal Alliance, which we have been involved in. It is really making a difference out there, with the South Korean most heavily coal-aligned province just joining. That shows a coalition of countries and non-state actors really acting to drive forward change. It is the practical change that is the real barrier now and is key.

One of the areas we would love to see the UK take a lead in is taking forward the green finance agenda. There is a green finance diplomacy strategy promised, coming out next year. If that helped developing countries and others to reform their finance system to make it easier to get money to the right projects and calculate the risks of the wrong projects, it would be incredibly powerful. I know a lot of countries look to the UK for leadership on that.

Another is reforming the multilateral development banks. They will be the main economic advisers for most of these countries. We are not going to invest in new ones—no one is planning that—so we had better reform the ones we have. There is no real co-ordination between progressive shareholders on those boards—there is a bit of discussion—so the UK could really powerfully move forward on that.

One of the last things I would like to see is—the UK is leading on resilience at the Secretary-General's summit next year—the UK picking up the baton of talking about climate risks and particularly the social and security risks coming from unmanaged climate change, and reinvigorating that conversation with the major powers and in the UN. Let us make the UN fit for purpose for a climate change world. It is not, and it knows it is not, but it needs some support at the Secretary-General's level to do that.

There is supposed to be a report published today by Chatham House between UK-China on climate risks. We should be doing that with Brazil, India and everywhere else. While America is off the stage, let the UK set

the stage. People look to us. These are things we have world-class standing in, and people listen to what we say. There is an open agenda to move forward, particularly in the next year.

- Q19 **Mrs Latham:** I want to mention the “B” word. To what extent do the Foreign and Commonwealth Office cuts and the UK’s exit from the EU risk limiting the UK’s capacity for global leadership in this?

Nick Mabey: A lot. We are doing a lot of work with European partners to keep the alignment between the UK and Europe on what we do at home and what we do abroad. There is a lot of goodwill and willingness because the UK has invested so much in European leadership over time. In a rancorous Brexit, I think that would be hard to sustain, but in anything orderly, there is a big willingness to keep that lockstep as a diplomatic cluster. Depending on the politics above pay grades, that will probably move forward, because the underlying philosophy is very aligned.

The cuts in the Foreign Office and in the network that I helped to set up 15 years ago are more worrying. Everybody else is cut too—the Germans, the French, the Americans, obviously, and the Chinese have not increased. Given the depth of this problem, we are lacking diplomatic capacity overall. The UK is still the leader, but it is declining. It is not enough.

This is also where the commercial imperative and the climate imperative are becoming unhelpfully mixed. There are lots of places of alignment, but they are not just going to undersell windmills to the people, which is what the German Foreign Ministry does. It does not actually cause change in a country; it just tries to sell them windmills. Everybody is going in saying the same thing. Rebooting our climate diplomatic service and working with others to do that and to increase capacity is necessary to deliver the development agenda. So much of this is about decisions at the top level, which are linked to trade, investment and other relationships. They can’t just be dealt with through money or bottom-up technical expertise. That is why we need a good diplomatic service.

Clare Shakya: The UK has had a long history of working with a number of the most vulnerable countries, and there is an opportunity to build a much stronger partnership with those countries. We have DFID offices in a number of very vulnerable countries, but we should be doing more. We should be expanding and building on that.

The UK’s role within the international climate finance rule setting has been really important. Things like having a bar on it being a paradigm shift, being transformational and making a real change, was due to the UK’s influence. There is a real risk right now that we have become distracted and short-termist in how we behave in some of these international fora. We are not bringing the same leverage and strategic vision as we have in the past.

This coming year, it is really vital in the run-up to the UN Secretary-General’s summit to set a story and a vision for how the development and climate finance system has to operate. That means significant reform to the multilaterals and to what the UN sees themselves to be doing. It must

not be an intermediary in project delivery, but a partner to Government to get the right institutions in place.

Dr Nadin: Building on the UK's role in leading the resilience, there is an opportunity for the UK to drive forward the agenda of coherence across some of the Rio conventions. We have the UNFCCC, but there is also the UN convention on combating desertification and the convention on biodiversity. We talk about the need for integration across the three Departments—BEIS, DEFRA and DFID—but that is also particularly important at the international governance level. All of those conventions can and should support each other in a transition to a warmer world.

In terms of the Chinese taking on leadership, I don't see that happening until they meet their own internal targets of becoming a moderately prosperous society. I don't think you are going to see the Chinese taking on a leadership role in climate governance, because this is about the status of developing the country or not. We need to bear that in mind.

There is an opportunity for the UK to start doing some more forward thinking in terms of trans-boundary climate risk and the need for trans-boundary adaptation. Adaptation is often put forward as a local issue, but actually it is a global public good. There needs to be much more consideration about how countries like China adapt—how it adapts its agricultural system and what that means for other countries. The US and China might have simultaneous crop failures. What does that mean for global food prices, and so on? The UK could be more forward-thinking, in terms of its resilience agenda.

Q20 Paul Scully: In the first part of Pauline's questions, Nick talked about the multilateral development banks. How effective do you think the multilateral finance mechanisms are at tackling the causes and the impact of climate change?

Clare Shakya: Multilateral mechanisms, as in the Green Climate Fund?

Paul Scully: Yes.

Clare Shakya: The issue that we have is that every country has put upon the new mechanisms that are being set up—GCF being the main one—the requirements of their highest bar for finance. At the moment, the GCF is only ever going to be very late financing. You need to have a strong track record and proven capability, and as a result the majority of finance goes through the MDBs and the UN. That could be okay if that's helping them to leverage and do things differently, but at the moment what we're seeing is a kind of cookie-cutter project coming to several different countries, with the countries themselves feeling that there's too much political risk to not accept any climate finance that they're offered, and so they are signing off on things that just aren't about building their national institutions.

The Ministers of the least developed countries group met just yesterday and have decided that, over the next six months, they will try to pull together a bold ask going into the UN Secretary-General's office for what they want to see as a vision for climate finance that is fundamentally



HOUSE OF COMMONS

different and about building their national systems, supporting their long-term vision and getting behind the mechanisms that will reach the local level and have a real impact, and much less around technical assistance, with experts flying in and out. It's about building their own national capability to do the analysis.

So there is a fundamental revolution afoot, because the GCF hasn't been working and the board's processes have been so mired in politics. However, it's not just about the GCF. It's also about how the UN as a whole, and older mechanisms like the Global Environment Fund, are operating, which, even for the small grants, is short-termish and about small projects, and not about fundamental changes to shift the system as a whole. With the 1.5° report, these countries are saying, "We are now in a real moment of crisis. We need support coming in a different way, and to be much more ambitious."

There is a revolution afoot, and the UK is very influential in the GCF. Sweden and other progressives on the board could be an alliance to really get things to change, and Sweden is chairing at the moment. But the way it's operating at the moment, it's really falling to lowest common denominator.

Q21 Paul Scully: Do you think the UK is using its influence beyond the GCF, which you mentioned, effectively enough to encourage multilateral agencies to be working as effectively as possible?

Clare Shakya: The UK was, a few years ago, really strategic and influential. My conversations with people in the international system at the moment are, "Where is the UK?" It's just not there; it's not present in these debates. Part of it has been that its own internal systems have been going through this endless portfolio review, which means that programmes have been cut and new programmes have to be designed. They just don't have the bandwidth to do the policy advice that they were doing.

Nevertheless, I see a great opportunity in reform. We've reached a crisis point, with the GCF being so visibly non-functional right now. There's a real opportunity to get that on to a better footing, to give more powers to the secretariat to get on with doing sensible things, and to understand that it is in a late financing role. The one initiative that has been agreed was framed as early-risk finance for renewables in east Africa, and even that is struggling to spend, because—again—all the requirements that are put on these mechanisms, through the GCF requirements, mean they can't fund early start-ups. They have to fund more established renewable businesses.

So we need something coming in before the GCF, and we need that to be clearly laid out. At one point, I'd have said DFID was playing an important role. They had a lot of the mechanisms to do that, by supporting things like national funds, such as the climate resilience and green economy fund for Ethiopia. They are withdrawing from that, so even the things that they were doing, that were very much about early stage, they are withdrawing from. The mechanisms that we have at the moment are all late-stage

finance, so we need to find a way of building this slightly more risk-taking and long-term perspective.

Nick Mabey: We have been doing some research on multilateral development banks, or MDBs, and that is expanding to some of the bilateral banks, because most of the money that invests in infrastructure is from Chinese, Gulf, Brazilian and other public banks. The MDBs are important for finance, but there are other people who are important for finance. What the MDBs are particularly important for is setting the bar for what good economic management looks like, and good economic management should be about having a clear decarbonisation path and a resilience strategy. It is not yet about that.

I don't think the UK is using its influence as strategically as it could, to get that into the places where we have a lot of shareholder value, because that will also help those countries to shape the inward investment. You talk to the Chinese and they say—the western Balkans is a good example—“We don't want to invest in coal-powered stations, but that's what the Serbians want to put on the table.” In a sense, there's no great conspiracy, because China's not capable of having a conspiracy outside China; it's just too diffuse in the number of decision-makers. That's the problem.

If you have a discussion with the Chinese about low-risk investment, and talk to local people and get their finance system right, you will shape their finance as well. People sometimes look at this as a titanic battle between different investors, but it is actually a lot softer than that. Some simple things, like really getting in and helping Governments work out what is good economic management, how they reduce risk and how they align with this future we all want, will also shape some of these other sources of finance, which, in volume terms, are more important, particularly in emerging economies. But they do not come with technical assistance. There is no Chinese development agency yet—they are building one—and so they lack capability. That is where the partnership with places like China comes in. Again, the UK is really well placed, given it has got a unique agreement with China on green finance—it has signed an economic and financial agreement—to help shape that money. I do not see resistance in central China—there is resistance in other bits of China that are on the periphery—to making sure that money aligns with a low-carbon future.

Q22 **Paul Scully:** I was going to ask whether you think that we are giving the right amount of money multilaterally or that we do need to do more bilaterally. I think you are suggesting that we probably do.

Nick Mabey: I think there is an awful lot of innovation and learning needed. Owing to the strength of our knowledge base in the UK, there is a real argument for doing more bilaterally. BEIS is trying to build on its TA programme, which is a really interesting model. It has not started yet; it is just being built. It aims to learn, to have strategic partnerships, and to build off the UK knowledge base and align with UK strengths bilaterally. That would complement. We were over-weighted towards multilaterals



HOUSE OF COMMONS

because we lacked internal capacity—unlike the Germans and the French, who have their own development banks and who have more technical capacity. UK technical capacity lies outside Government: you don't need to pull it into Government to access it, but we can be much smarter. London has more people working on the global climate transition by one or two orders of magnitude than any other city in the world, but currently our aid budget does not touch those people—whether in McKinsey, the City of London or think-tanks.

To go back to transparency, we don't have a discussion on the effectiveness of UK aid. We don't sit down and say, "Do we think this stuff has worked?" Under Chatham House rules, you can be completely anonymous. It is such a waste. That is why we need a bilateral programme in some ways to capture the knowledge. There are other places to go through for the volumes of money. To get the quality and the learning, we need to be doing things so that we can learn from them. You cannot just do that abstractly or by paying the World Bank—that is an inefficient way of doing it.

Q23 Paul Scully: Is that a fair assessment, Clare?

Clare Shakya: Yes, absolutely. There are slight differences: Nick focuses more on the emerging economies, and I focus more on the poorest. Sensible, long-term commitments that can be made bilaterally have been really powerful in the past. We seem to be just giving up on them. DFID is literally withdrawing from all the most exciting things that they have been doing over the last 10 years—the things that were really transformational. They all got cut in the last bonfire of climate finance that happened a couple of years ago, and nothing is coming in behind.

In terms of this idea that everything can be integrated—I'm sorry if I am moving on—and will do the right things, unless you are doing the thinking, being strategic and putting the staff time in, you are not going to be doing the stuff that is transformational. The types of approaches that Nick is talking to are exactly right: we need to be using UK funding to do that strategic, politically astute thinking, that we have proven that we are good at in the past and that people trust us to do, to provide honest advice. That is where we should focus our efforts.

Chair: You have certainly anticipated the next line of questioning, but I'll give Ivan his opportunity all the same.

Q24 Mr Lewis: Obviously, you have answered quite a lot of my questions. Why has this de-prioritisation happened within DFID? Is it a question of political choices or of unintended consequences administratively? That specific question may be unfair because I am asking you to make a political intervention, but I think we need to know. Do you think it is largely a consequence of proactive political choices, or is it an unintended consequence? How is this playing out in DFID at country level? What is happening about climate change and country-by-country programming?

Clare Shakya: I would not say that it is because of the colour of Government, but it is because of political choices. We've had good things



happen under both colours of Government that we have had over the last 10 or 15 years. At one point, there was this sense of the rest of the world really looking to how DFID was setting up institutions, supporting national processes and building that national institutional capability to make long-term decisions. Everyone else was looking at that and saying, "How can we do that as well?" We have completely lost the ball. I think that is partly because of the change in the governance of how we run our ICF. The lack of the ambition that is required now means that people can say, "We are doing some agriculture. Surely that should be climate-smart. Let's whack some money in and call it climate finance," and actually not change the programme fundamentally enough to make a real difference. It is becoming more of a greenwash.

That is part of it. The other part is that some of the things that were hardest to do required small amounts of money. They required quite a lot of staff time and not a very large spend. That became less interesting, I think. That is maybe more of an unintended consequence of trying to focus effort, which is fair enough—you do need to focus effort. But what they have done is cut a lot of the most important and most strategic programmes. The climate leaders in the developing world are no longer looking to DFID for support. They have to look to smaller donors.

Q25 Chair: Is that what you meant by "bonfire of climate finance"?

Clare Shakya: Yes. A lot of the reviews that have been done of DFID's programming were to reduce the number of programmes and really focus effort. As a result, a lot of the climate finance work disappeared. It was intended strategically to build up slowly. There is a big uplift in the final year of the climate finance spend. The idea was to build the systems, the institutions, that could absorb greater finance and then have the finance arrive in that final bit. That brilliant plan disappeared, it seems.

One thing we know that has been really effective and that other countries have been replicating has been some work in Kenya and Tanzania, where DFID supported devolved climate finance, getting down to the local level. I should declare my conflict of interest, because IIED has been involved in supporting that—supporting it because it was so exciting. DFID has completely withdrawn from the Kenya work just as the Government have said, "Let's take it national." Just as the Tanzanian Government have said, "Take it national," they have withdrawn.

The difference is that in Kenya there are enough donors; others have come in—Sweden and the World Bank—but in Tanzania it has just disappeared. This is a moment where, politically, Tanzania is centralising. So that was the one thing that really had Government ownership for a more strategic approach. I could literally take you through every country portfolio and tell you what has been cut. The sense of the UK being at the forefront and really driving a vision is not there any more.

Q26 Chair: Can you send us that—the literally going through? Don't do it now, but if you could send us the country-by-country list, that would be really helpful.

Clare Shakya: Okay, I'll have a go. It will just be on my knowledge, though.

- Q27 **Lloyd Russell-Moyle:** You have described how often the programmes currently being run are just re-badged. I take from that that you don't think that the spending is in the right kind of programmes. What kind of programmes require more attention? Is it early-warning systems, environmental conservation, capacity building? Are there programmes that we are just not particularly looking at investing in?

Clare Shakya: The mainstreaming approach has meant that—some of the things are really important, so I am not trying to diss it all. I think it is important that climate finance is put into agricultural programmes. But what it requires, and the step that is missing, is saying to that programme, "How are you going to ensure that this investment is climate-smart?"

Within infrastructure, equally, it should be there. We should have climate finance in there, particularly on the technical assistance side. How do we ensure that these investments are going to be sensible, given the type of futures that we are looking at?

Climate information services is a fundamentally challenging agenda, partly because Met offices have been so underfunded in the past. Trying to get them to understand that they need to provide services that are useful to the users is quite a fundamental change in how they operate. It is not easy.

The Met Office has been a partner in a lot of what DFID is doing. It might have taken close to 10 years for the Asia programme to get approved but, apart from that, you can see that the UK is in that space. It is important that the UK is, because we do have a lot of that capability. What is missing is thinking about the long-term institutions that are needed.

A lot of countries have looked at the UK's Committee on Climate Change and said, "How can we learn from that?" At one point, a fundamental part of what DFID was trying to do was to help countries think through how to create an architecture that works—what institutions need to do what, and how to create a fund that helps leverage development and private investment in ways that make it more climate-positive. That is the bit that is missing—that long-term institution-building side of the work has just disappeared.

Dr Nadin: There is also a bit of a disconnect in terms of timescales. Let's take adaptation. You are not going to see the return on investment within a year or two, which might be what is set out in a DFID programme. It takes much longer to demonstrate the return on those investments. There is also a bit of a disconnect between the SDGs and the UNFCCC commitments. The SDGs look at the 2030 period, whereas the UNFCCC commitments look at the end of the century. A bit of a paradigm shift needs to happen. We need to move away from short-term programming to

respond to climate change, and towards longer term programming that might cross different Governments—

Q28 Lloyd Russell-Moyle: Is that easier said than done?

Dr Nadin: Yes.

Q29 Lloyd Russell-Moyle: Are there things that could be done to make that long-term planning easier for Governments to swallow?

Dr Nadin: Yes. It is much easier to do that in a place like China.

Q30 Lloyd Russell-Moyle: I am not suggesting we should adopt the Chinese model of governance here. Are there models in western democracies that have managed to get a political consensus so they can plan in the longer term?

Nick Mabey: There are lots. I always fall back on the Dutch because they have a particularly interesting consensus model. They have banned gas boilers and are unravelling their gas system, despite being more gas-dependent than us. There are lots of interesting models. Currently, it is not the job of anyone in any part of Government to look at those models and transmit them.

This partly comes back to the fragmentation of the ICF. Originally, one of our criticisms of the ICF was that it took on only really low-risk projects and did not have a portfolio approach that said, "This is our innovation arm. This is venture capital. This is bulk spend." The one thing we know is that we do not know what the answer is. We need to spend money to innovate and we need to learn really well from that innovation. At the moment, there is no way of looking at the portfolio to see whether there is the right balance.

Are we investing enough in the innovation challenges that developing countries face? I would say we are not, because we are not investing enough in the innovation challenges that developed and emerging economies face, but we cannot know, because we are not thinking back to an overall strategy. We have quite a good idea of what decisions and choices countries have to make to deal with this challenge, and when. Compared with virtually everything else we work on—security and so on—that is quite well known. But we are not going back to a strategy to do that, because there is no way that can be done any more.

Clare Shakya: One indicator of this inability to play that role is the lack of staff. When you had the Foreign Office, which had a very well-resourced effort on climate, the Department of Energy and Climate Change, which also put people out there, and DFID all working together in country, you saw really intelligent things happening and really strategic investments being made that went with the grain and shifted the politics in that country. Because you do not have the staff, you are not seeing that happen.

In the UK, we do an assessment every two years of our energy system and ask, "Is it fit for purpose for the next 20 years or 50 years? What



HOUSE OF COMMONS

types of investment do we need to make? How do we shift the system as a whole?" In developing countries, under the MDB process, you get five-year masterplans that do not look at risk at all. They literally just say, "Let's assume exponential growth in demand, and now let's respond to it." There is no thinking about the system for running a grid, let alone about much trickier issues around resilience and managing the variety of risks that countries face.

Chair: Thank you very much indeed. That was a fantastic first session. In just an hour we covered a lot of ground, and you gave us plenty to pursue during our inquiry. Thank you to all three of you for your evidence.