International Development Committee

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

Tuesday 4 December 2018

Ordered by the House of Commons to be published on 4 December 2018.

Watch the meeting

Members present: Stephen Twigg (Chair); Richard Burden; Mr Nigel Evans; Mrs Pauline Latham; Chris Law; Mr Ivan Lewis; Paul Scully; Mr Virendra Sharma.

Questions 31 - 71

Witnesses

I: Anshul Patel, Chief Commercial Officer, BBOXX Ltd; Professor Sam Fankhauser, Director, Grantham Research Institute on Climate Change and the Environment.

II: Dr Ruth Fuller, International Development Policy Adviser, WWF-UK; Chu Thi Ha, Acting Programme Manager, ActionAid Vietnam; Dr Alison Doig, Head of Global Policy, Christian Aid

Examination of witnesses

Witnesses: Anshul Patel and Professor Sam Fankhauser.

Q31 **Chair:** Good morning and welcome, everyone, to this panel session on UK aid for combating climate change. We have two panels this morning. I would like to welcome our first panel, which will focus on the role of the private sector. We have about half an hour with you and we are seeking to cover six areas, and then we will move on to our second panel.

Can I ask each of you to introduce yourselves and then to address an opening question: what do you see as the private sector's role in terms of climate action? In particular, what can the private sector do that perhaps some of the traditional development actors cannot do? Who would like to lead on that?

Anshul Patel: Good morning. My name is Anshul Patel. I am the chief commercial officer at BBOXX. We are a next generation utility and our business is around providing distributed services—energy in particular—in developing markets. As a quick brief, we operate in around 11 markets today in Africa and Asia. We serve around 150,000 customers across these markets through renewable solar, and pay-as-you-go is our main mode of operation.

Professor Fankhauser: I am Sam Fankhauser. I am director of the Grantham Research Institute on Climate Change at the London School of Economics. I am also, for the sake of full disclosure, a non-executive director of CDC, but today I am here as an LSE academic.

Q32 **Chair:** Thank you very much indeed. Can you say a little bit about what the private sector brings to the table as distinct from other development actors?

Professor Fankhauser: I would put that a bit more assertively than you do. I would say that it does not work without the private sector. You are not going to solve the problem without the private sector. There are two observations that bring this home. One is that climate solutions tend to be much more capital intensive. There is upfront capital needed and it tends to be cheaper to run afterwards if you think about solar panel and electric cars. There is a bigger capital need in both climate-resilient and low-carbon solutions.

It is also true that most of the capital investment in the world is done by the private sector. If we do not convert that capital to low carbon and climate resilient, we are forever running behind and forever building up a stock of capital, some of which is very long-lived, which is wrong; it is not climate resilient and it is not low carbon. We are forever running behind unless we trigger that key amount of private capital.

Just to give you a number, there is an estimate that says about $5 trillion a year will be invested globally in infrastructure. The climate finance numbers we talk about—the public commitment to climate finance—is around $100 billion, so 50 times less, and this just shows the relative magnitudes of these things. Unless we can change the $5 trillion, we are not going to solve the problem.

Q33 **Chair:** Anshul, in your experience, what is the role of the traditional development actors in identifying opportunities for sustainable investment versus just allowing the private sector to get on with it?

Anshul Patel: Perhaps I will just flip the question around slightly. As a private entity and organisation—and I probably speak generally on behalf of our sector—we need the enabling environments. I would really want to see those enabling environments being created and sustained for us. I would be looking for things such as the policies and reforms around climate change in the markets that we operate, driving the agendas into the local Governments, and actually helping to create those enabling environments for us to operate sustainably whether we are a local business or an international business.

The other thing is around the catalytic nature of investments. It is fair to say that, yes, while there is a lot of private investment coming in for businesses like ourselves, we are doing things that perhaps have not been done before in traditional forms. Whether it is technology development or whether it is actually just market access, what we need is catalytic investment to allow us to actually operate and test out these things. As I said, we need the policies and reforms to actually help us align that with local agendas. I am always game for having our sorts of operations in tune with a national policy for electrification and energy access, as an example, and in most parts of the world that is not the case right now.

Q34 **Mrs Latham:** This is really for Anshul. Groups of us have recently been to Uganda, Kenya and Ethiopia, and we saw different installations of the off-grid solar-powered battery-based energy solutions such as M-Kopa in Uganda and Winsol in Ethiopia. Is this the same sort of market that you are operating in? How do you see business contributing to the achievement of the SDGs and international climate goals?

Anshul Patel: That is exactly the environment we operate in. I would like to think we are truly unique in that we operate on a service model. We really want to build a long-term relationship with our customers. We see what the likes of M-Kopa, Winsol or BBOXX are doing as really a service that has to sustain itself in the long term. It is not just about short-term loans and so forth.

To answer your question around SDGs, we have had some analysis done on ourselves, and our business actually tackles seven of the SDG goals that we have today. We directly contribute to that. It is important to recognise that a good proportion of the developing world is actually in that lower income bracket and there is very little being done in that space. It is also very tough. That is where I see a massive opportunity available for everyone.

Q35 **Mrs Latham:** How do you think it is going to impact on climate change?

Anshul Patel: To give you an example, our customers, for electricity solutions, were using things like kerosene, wood, candles, et cetera, and are now turning to renewable forms of energy. They are actually creating efficiencies in their lives because they have something that is flexible and available on demand.

We are also looking at cooking solutions as well, which probably make up the largest portions of the households' expenditure and carbon footprints. If you are able to address those, you are certainly tackling a massive carbon footprint agenda.

Q36 **Mrs Latham:** What are the barriers to your kind of business in the countries you operate in?

Anshul Patel: For this conversation there are a few. The first one would be around the policies that I mentioned. For example, in most pockets that we operate in, we have to really push hard to get remissions or duty exemptions on solar products, et cetera, into the countries. That is whether it is sold as a service or as a product itself. That is quite important, because the best example I can give is that there are kerosene subsidies still available for the market whilst we are trying to tackle the climate agenda as part of our business. That is one good parallel that I can draw. That is always quite tough for us as a business or as a private sector to combat, and it takes a lot of time and effort. This is where a lot of work would be done.

The other one is related to that and it is around the education piece, not just to the Governments but actually how you drive that into the local economies.

Another one is finance. We are doing long-term finance. It is infrastructure and that costs a lot of money. To give you an example, we have customers who traditionally will behave as defaulters and we have to repossess them at some point in time. That actually pains us as a business. We should not be doing that but we have to and that is our limitation on finance.

Q37 **Mrs Latham:** How do you think that DFID or development finance institutions like CDC would be able to help?

Anshul Patel: There is a lot that can be done. I was looking at some of the programmes that have been acted upon. My personal take is that there are quite a few and that they are quite disconnected between one part of the world and another. There is a lot of coherency that could be developed. In addressing a market like Kenya, where there is an actual thriving economy and thriving business for these kinds of operations, I would say it is around this policy and reform piece, for sure, but also the catalytic nature of investments. An example that I can give on the positives is something like a crowd-lending platform called Lendahand, which has been supported through DFID initiatives; that is unlocking capital for BBOXX and partners and competitors in a way that has not been done before. That is a really big thing that could be done.

Q38 **Mrs Latham:** How else do you think that development actors could support companies like BBOXX, for instance with seed funding, multi-sectoral co-ordination and demonstration projects?

Anshul Patel: To your point, the other two things are around technology advancement, because this will help drive the mitigation around the world, and funding in terms of trying to support and build new technologies and to enhance those that exist.

Seed funding is actually the right type of funding for a new market entry, for example. This is what I was talking about in terms of coherency. You might see grants being disbursed in Kenya where there is a thriving business environment but that might not be the most appropriate form of finance or support in that country. However, I could certainly see that being the case in a country like Congo or perhaps Nigeria where it is more difficult to actually enter. There are all sorts of risks for BBOXX to operate in a place like Congo. We have gone out there but we would like to see more support in actually entering and sustaining business in those places.

Q39 **Mrs Latham:** What are the dangers of market distortion and how can it be avoided?

Anshul Patel: The first thing is around Government policies that could actually steer, for example, the giveaway programmes. To their credit, I have seen a lot less of these over the last few years.

Mrs Latham: Do you mean our Government or Governments over there?

Anshul Patel: It could be local Governments or it could be donor-driven, whether it is DFIs or assisted donors through what I would call giveaway programmes, where there are market competitive distorting activities where something is either charged for less or not charged at all, which creates a really difficult environment for businesses. I would like to say, however, that that has changed quite substantially.

For me, it is more about the tariffs. It is more about the support and the type of support given across the sector. One thing I could say to your previous question is that, if I take CDC's example, I have seen one investment into our sector, into perhaps one or two companies, and a lot more could be done there as well. There are an ample number of players in the sector. "Favouritism" is not the right word but I would say it needs to be more spread out.

Mrs Latham: Preferential.

Anshul Patel: Preferential, right.

Q40 **Mrs Latham:** Do you manufacture in-country or in China?

Anshul Patel: We manufacture in China. For the scale of our business today and for the foreseeable future, it makes a lot of sense. Just to flip that around, our business has created over 3,000 jobs in Kenya and Rwanda alone, and these are sustainable, long-term jobs of various skills. That is something that we really need to push quite a lot. It is not just about the manufacturing side. The costs, the efficiencies and the quality are going to be managed centrally but we may think about bringing that into Africa at some point. Eleven operations could create 10,000 jobs, which is pretty significant.

Q41 **Richard Burden:** Could I pursue some similar things with Sam? In your written submission, you say that DFID could play a much greater role in creating an enabling environment for green, private sector development. Could you tell us a bit more about what that looks like in practice?

Professor Fankhauser: The first thing I would say is that renewables are hugely important. We have just had a good discussion about it but the first thing I would say is that climate finance has to be a lot broader than just renewables. There is a lot more that we have to do on the emission side. There are other emission sources and a lot of them are related to land use, agriculture, forestry and industry. Heavy industry, like cement, is a big source of emissions even in developing countries. We have the whole area of climate resilience, which cuts across the whole economy and the whole private sector. If we do not allow ourselves to turn to renewables, we will be missing a huge part of the story. That is the first thing that I would say.

What can DFID do more? There are two elements to the business environment, if you will. One is the enabling environment: the policies, the incentives, the information, the regulation and the institutions, which is of the classic technical assistance type activity. DFID is very good at these things. Other institutions like the World Bank are good at these things as well. EBRD is good at these things. That is dealing with the context in which the private sector functions, and we have heard about things like fuel subsidies and stuff like that that distort the environment. The first part of the story is to deal with the business environment—remove the distortions and put in place incentives that go the right way like feed-in tariffs or building regulations or efficiency standards and building in floodplains and so on. That is the business environment story.

Then there is the story around deploying and redirecting capital. In dollar terms, this is the much bigger part. If you look at it in terms of time spent by DFID officials, it is probably about equal but, in terms of money spent, deploying capital is the much bigger part. There, again, it is a question of doing the renewable things, absolutely, but then also going into all those other sectors. If somebody is building a port, that port will be there for 50 or 100 years so it has to be prepared for climate change. We have done a study on hydropower in southern Africa. Hydropower, of course, is clean. We looked at the impact of the last El Niño when there was a drought in southern Africa and of course it was a drought everywhere and those hydro dams tend to be connected and this creates systemic risks to climate change. You have to be aware of all those sorts of things and you have to deploy capital that is resilient to these things.

Q42 **Richard Burden:** Thinking about DFID specifically, are there any areas where, given the kinds of examples you have given, you think things are particularly lacking or where they are working well? Perhaps, just in following that up, you could say where you think, as far as DFID is concerned, the balance should be between creating the enabling environment, technical assistance and so on, and how much should be involved in supporting the private sector more directly through capital requirements.

Professor Fankhauser: There is a large part of DFID that serves other sustainable development goals, as it were, such as education and health. Tapping all those things is good when it comes to climate resilience but technically they are not climate finance. The trick there, or the challenge to DFID there, is to be climate aware in everything they do, not just in a little box called "climate finance". They need to look at everything they do from a climate lens. That is very important.

As far as things that have gone well—Anshul might disagree—the renewable story is going well in the sense that there is a certain momentum in that sector. There is still a lot to be done but the costs have gone down and there is interest in private sector activity.

I will give you two examples of things that have been harder to do. I am sure there are many more. One is, again, the climate resilience piece, particularly when it comes to small and medium-sized enterprises. The private sector is a very diverse thing and we tend to think of them in aggregate but many of the small and medium-sized enterprises are reaching climate resilience. Many of them are in the agribusiness sector. I do not think we have even started to do that, so we are very behind on that.

The other area that I would mention is non-energy emissions, which is a huge part in DFID's countries, related to agriculture, forestry and land use. DFID, on the ground side of things, is doing good work but the bit that is very hard to do commercially is deploying capital into those sectors.

Q43 **Paul Scully:** Professor Fankhauser, you talked about the research on the challenges facing SMEs seeking to adapt to climate change in semi-arid lands. What role can development actors like DFID and other organisations play in supporting SMEs in developing countries to adapt to those impacts?

Professor Fankhauser: Adaptation is a bit different from the emissions side. On the emissions side, as we have heard, a lot of it is creating a level playing field and making sure the technology is right and the renewables can compete. On the adaptation side, it is more a story of providing access to information and providing access to capital, creating resources, creating capacity and informing people. A lot of businesses do not deal with climate change as a future issue. A lot of businesses, certainly on the agricultural side, are used to climate variability and they are pretty good at responding to that but they tend to respond to it in a coping way rather than a proactive way. They sell livestock or they let people go. They do not do the more sustainable forward-looking things like changing crops or relocating their warehouses. There is much less of this sustainable activity. A lot of it tends to be the reactive coping type of activity.

Q44 **Paul Scully:** Is it because of that sustainability that you think that work is so important? Is it the sustainability aspect in particular?

Professor Fankhauser: There is a huge role there for DFID. It is not necessarily exclusively private capital but there is a huge role for development aid to reach those private companies with information and with access to resources and capital just to make them more informed so that they can make their own adaptation decisions.

Q45 **Paul Scully:** Are you able to cite any examples where that particular work is going well?

Professor Fankhauser: As I said, we are quite behind in the area of adaptation. One example, moving away from the SME story, is that the development institution that is best for private adaptation is probably EBRD. EBRD has a dedicated person whose job it is to do adaptation with the private sector clients of EBRD and that makes a difference. They probably have the biggest portfolio of explicit adaptation support of any DFI or MDB. There is a huge amount of leverage in that. The data is a bit old—it is about two years old—but two or three years ago EBRD spent $250,000 on climate resilience and it climate-proofed $1.5 billion in capital to climate change. There is a huge leverage effect in there and a lot of that makes sense. A lot of that is actually win-win in terms of water efficiency and business continuity stuff whereby, even if climate change disappears tomorrow, we still want to deal with climate variability.

Q46 **Mr Evans:** How important is it to get private capital into some of these climate change projects, Professor?

Professor Fankhauser: Again, my opening remark is that, unless we get the private capital streams to be redirected, we are not going to solve the problem. The order of magnitudes are just so different. Climate finance, at the last date that we have, was about $400 billion a year. I think that was 2016 data. At least $300 billion of that was private and that is probably not enough, as it were. The number I gave before is that infrastructure investment over the next 20 years will be $5 trillion per year. With climate finance, we talk about $100 billion. Unless you reach $5 trillion, you are just going to be behind. You are just going to create capital stocks that are not fit for purpose.

Q47 **Mr Evans:** It sounds as if we are not being really successful at it then.

We are only scratching the surface with the money that is coming in.

Professor Fankhauser: Yes, that is not unfair to say. I would distinguish between the private capital flows that are not touched by development capital, as it were. The development finance community is getting better. The World Bank has announced $200 billion or something like that of extra money on climate finance. Even in CDC's case, 15% of investment is accounted as climate finance. It is a pure accounting rule. The actual number is much higher. That is an accounting number. However, you still wonder what the other 85% is.

Q48 **Mr Evans:** What are the real barriers then to getting more money into this area?

Professor Fankhauser: I am not even sure that it is a question of only more money; it is a question of the right money and it is a question of creating projects that are suitable for that sort of money.

Q49 **Mr Evans:** What do you mean by the "right" money?

Professor Fankhauser: I mean patient capital. I mean capital that is comfortable with the risks that are being created. It is not just about subsidising the stuff down. It is mostly about having businesses or investors who understand the risks and are comfortable with the risks and know how to handle them and that are probably in there for the long term. Anshul, that is probably more your sort of area.

Anshul Patel: I could add a few comments there. I would like to see more around not just unlocking capital but unlocking capital at a local level as well. Speaking from my experience with all DFIs, I have not seen much traction in how that is mobilised. As the professor says, there is definitely capital available. However, if I look at our conversations that we have had with local institutions or banks in the likes of Kenya, Rwanda or any other country, for us as a business or even some of our competitors it is extremely difficult, if not impossible, to achieve those to get access to that capital. As I mentioned earlier, there is actually quite a lot of tieback to our consumers as well, so you are caught in a Catch-22.

The DFI capital is actually essential to be catalytic, whether you can call it "first piece" in terms of taking that risk or supporting that risk, because our businesses are very new. Whether you look at the C&I space—the commercial and industrial space—or you look at distributed solar as we do it or any other service for that matter, we all have a very distinct and very different profile to what you might see in traditional energy or renewable projects. This is where a lot of effort could be made and it would definitely also help our consumers, if I can be frank. We are getting US dollars or foreign and hard currency loans to serve customers in non-foreign currency and hard currency markets, and there is a significant foreign exchange risk that someone is bearing along that chain. Ultimately, it means that the consumers' prices are perhaps higher than they should be when they do not have to be. That is something where DFIs—and DFID could take a key lead role here—could help to mobilise an environment for those banks and financial institutions locally.

Q50 **Mr Evans:** It begs this question: what is your assessment of how effective DFID is being in ensuring that sufficient private capital is coming forward in these projects? What is your assessment? Out of 10, how many marks would you give them?

Anshul Patel: I would say less than 5. We could do more. Maybe that is me being frank and being objective but we would like to see a lot more happening. If I look at the way our space has evolved, over the last five years hundreds of millions has been pumped into this sector. However, it is very much driven by agendas of venture capitals, et cetera. As the professor put it, there is a lot of patient capital there but the portion of DFID or other DFIs in there is perhaps not as high as I would like to see, when it could be much higher.

Q51 **Chair:** Sam, would your assessment be similar?

Professor Fankhauser: Yes, I would disaggregate it a little bit just as a way of avoiding one hard number. If you look at the DFID portfolio and how climate-aware DFID is in its activities, it is actually fairly good. Again, there is a fair amount of activity that is climate-neutral, serving other development goals in education, health and so on. The DFID portfolio and the wider CDC/World Bank/IFC portfolio is not all that bad.

Where we have really failed is in dealing with the mainstream capital and convincing the huge flood of commercial capital—Chinese capital or wherever that money comes from—to green and to make climate-smart that part of the portfolio. If it is just about the little DFID island and the little IFI island, I would probably give it a 6 or something. However, it is the rest of the capital flow where we have not really done anything; at best it would be a 2 or a 3.

Q52 **Chris Law:** I want to ask you this as a non-executive director of CDC. You talked about the 15%, and that is pretty poor by anybody's estimations, in terms of investment.

Professor Fankhauser: It is an accounting number. You have to look at the portfolio to get an accurate number.

Q53 **Chris Law:** What is your view on that? Do you see that as pretty poor in terms of a percentage of overall spend? My second question is: is CDC bound in terms of being restricted and in terms of being fearful or taking less risky projects because it is profit-led?

Professor Fankhauser: I would dispute that 15% is the right number. That is just the way DFID deals with the information that they get. Assuming it is 15%, I would see that as the lower boundary. Again, there is a lot of the CDC portfolio that serves other SDGs like health and education, as well as the commercial sector with bakeries and the agribusiness that, in a sense, are climate-neutral where the main challenge might be to be climate resilient rather than low carbon.

That leaves the infrastructure portfolio, which is overwhelmingly low carbon at the moment, so that is not too bad. There is a bunch of cement plants that are in the portfolio that it would be nice to do things with. You cannot do everything on day one. That is one thing that I have learned as an academic. You have to start creating dialogues with your investors and take them along on a journey. If you come in on day one and say "I would like to invest in your company and, by the way, I want to turn it upside down and make it zero carbon," you are not going to get the deal or you do not get enough deals. You have to bring people along on a journey.

CDC wants to do more on climate. It is one of the big strategic objectives in the current strategy period, so we are only at the beginning.

Q54 **Chris Law:** I will repeat my question, just to be clear. Does being profit-driven make CDC more risk-averse? Could it be taking on more risky projects that might catapult it forward?

Professor Fankhauser: Obviously, every project that is being done is assessed on its commercial viability. There are two answers that I would give to that. First, there are various strands of CDC capital. One has just been re-christened as "catalyst capital", which is much more risk-tolerant. A lot of the renewable works—there is an off-grid renewable facility that actually gives local currency finance—in their window are much more risk-tolerant than the traditional CDC capital. With the instruments that are now available, the CDC can take a lot of those risks. I do not think that that is the deciding barrier.

The other thing I would say is that you want to demonstrate success and you want to demonstrate something that is replicable. If you fail commercially, nobody is going to replicate. It is not an unreasonable test to impose.

Chair: Thank you both for your evidence today. We are very grateful.

Examination of witnesses

Witnesses: Dr Ruth Fuller, Chu Thi Ha and Dr Alison Doig.

Q55 **Chair:** Welcome, everyone. Thank you all for joining for us. We have 45 minutes and we want to cover 10 questions with you. Sometimes we are just going to put a question to one of you and encourage the others to not always answer, if that is okay. Let me kick off. I am going to start with Ruth. Please do introduce yourselves when you first answer a question. Can you, Ruth, outline some of the ways in which a failure to act on climate change will affect the achievement of the SDGs in general and not simply SDG13?

Dr Fuller: I am Ruth Fuller. I work on international development policy at WWF. I also co-chair the Bond group on the sustainable development goals.

Climate change and the SDGs are closely connected. The 17 goals and 169 targets that form the SDGs are the most ambitious policy agenda we have ever seen, and they offer solutions to some of the most critical social, economic and environmental challenges that we are facing, including, of course, climate change.

SDG13 is specifically on climate action but there are connections to all the different goals. There are specific targets and a whole set of goals around mitigation, adaptation and resilience but, really importantly, if we do not act on climate change and if it is not swift and far-reaching, then it will be impossible to reach the sustainable development goals. Failing to act on climate change puts any chance of ending poverty far out of reach. According to the World Bank, climate change could drag more than 100 million people back into extreme poverty by 2030, 2030 being when the SDGs run to.

We also need to think about how we are framing climate change. It is not a future problem; it is a current problem. It is right here, right now, impacting people around the world. Look at goal 2 on food, for example. The recent report by FAO demonstrates that global hunger has increased for the third consecutive year and they cite climate change as one of the key drivers behind that.

The extent to which climate change is going to undermine, and is already undermining, the SDGs depends on the level of warming that we are going to face and what climate scenario we are heading for. I am sure you will be aware of the recent Special Report on Global Warming of 1.5°C by the IPCC, which outlines that in a lot of detail. It gives different scenarios of 1.5 and 2 degrees of warming, but what is really important to bear in mind is that we are already at 1 degree and we are heading for a trajectory of up to 4 degrees or even beyond by the end of the century. At 2 degrees, the risk from droughts, floods, tropical cyclones, sea level rise and species loss are all much higher than at 1.5 degrees. 2 degrees means an extra 10 centimetre sea level rise by the end of the century, putting an extra 10 million people at risk compared to 1.5 degrees.

Even at 1.5 degrees, the ranges of many marine species are shifting with significant damage to marine and coastal resources with huge impacts on human populations that depend on those resources. For example, at 1.5 degrees up to 70% of coral reefs are lost and they are lost entirely at 2 degrees. This is a really important issue when it comes to livelihoods and food security.

You can see that, without climate action, there are threats that will derail all of the SDGs. Interestingly also, in their own submission to this inquiry, DFID, BEIS and DEFRA recognise that tackling climate change is also an investment in our future security in the UK. They cite the 2015 strategic defence and security review that concluded that the impacts of climate change will exacerbate instability, conflict migration and disasters in many countries, which will have knock-on impacts for the UK's own supply chains and trading partners. This is a problem that affects all of us, no matter where we are in the world.

Finally, the IPCC 6 says in the starkest possible terms that we have, at most, 12 years to turn it around and to drastically reduce carbon emissions if we have any chance of keeping to 1.5 degrees and therefore of avoiding the severest consequences of climate change. It is the factor that is going to destabilise and undermine any attempt to deliver the SDGs.

Q56 **Chris Law:** I want to ask this question to Ha Chu. I am pleased to see you here and to hear that ActionAid has fully adopted the language of climate justice, as have the Scottish Government. I want to ask you why you think DFID has not yet adopted climate justice as part of combating climate change?

Chu Thi Ha: Thank you very much for your question. May I introduce myself? My name is Ha Chu. I am acting programme manager with ActionAid in Vietnam.

Regarding your question as to why ActionAid adopts the climate change justice approach, we believe that climate change is now affecting villages and communities disproportionately and that they are suffering from the serious impacts of climate change that they are not yet well prepared to cope with. We want to emphasise the importance of sharing the benefits and the burdens of climate change so that it equitably and fairly impacts the developing and developed countries. We also want to highlight the importance of combating the gender inequalities in the story of climate change impacts. We believe that a climate change justice approach is the most appropriate approach for us to deal with this story.

When dealing with climate change injustice, we believe that there are some key principles that we should follow: first, respect and promote human rights; secondly, respect and promote the right to development; and also make sure that the decision-making on climate change is participatory, transparent and accountable, and that there is safeguarding of the most affected communities in the remote areas of many countries like Vietnam, Laos and Cambodia as well as the African countries that are being affected.

Q57 **Chris Law:** Can you give me some flavour of what that looks like in terms of development programmes? What specific programmes can you point to to say, "This is what climate justice is and this is how it works on the ground"?

Chu Thi Ha: Drawing on ActionAid's experience on the climate justice programme, we can give you three key examples about our climate justice programme. One is the community-led and women-led disaster risk reduction programme that we are conducting in the field. Affected communities and women receive training to develop community-based disaster management plans and they are also supported to conduct preparation drills to protect the lives of people and livestock and to reduce the impact of climate change.

The second example is that ActionAid promotes the loss and damage approach. This is a community-led evaluation of the loss and damage caused by climate change. We use very friendly tools for communities themselves to learn and to map the resources and also to identify the hazards of climate change. By using these tools and this approach, communities can evaluate the specific loss and damage induced by climate change and they can claim for the support and response programmes from the authorities and other relevant actors.

The results of the loss and damage approach are also appropriate for the national Government to show the international communities about the loss and damage that the country is suffering and to call for international support, as per the rules of climate justice that we should share the benefits and burdens of climate change equitably and fairly.

Chris Law: Thank you for that. That is really appreciated. ActionAid is the only NGO I am aware of that uses the language of "climate justice". Sorry, Alison may want to intervene there.

Dr Doig: "Time for climate justice" is on my badge.

Q58 **Chris Law:** I wanted to know how many NGOs use that language. The UK Government currently do not use it but the Scottish Government do. What do you think the reticence is and why?

Dr Doig: I hope you do not mind me coming in on that. I am Alison Doig and I am head of global policy at Christian Aid but I have done their climate work for many years as well. We have a climate equity report that comes out every year ahead of COP and we have over 200 NGOs and civil society groups that sign up to that. The foundation of it is climate justice. It is a really difficult one for the UK Government to take on board. They need to realise the scale of action both on mitigation and adaption and to take on board the responsibility of wealthy countries to support the global effort rather than just doing it at home. It is a big task to take on and there is a responsibility element.

Within the UNFCCC, there are three pillars: mitigation, adaptation, and loss and damage. The UK Government, and particularly DFID, are blocking any discussion of loss and damage. This is the tail end of when disasters happen and how you respond. It is meant to have its own negotiating strand and its own financial strand but admitting that means more money, it means more effort and it means taking that seriously. Loss and damage does not only mean insurance. Insurance pays out a little at the beginning and can respond but it is not going to deal with the longer-term problems.

It is a tough message to take, but if we are going to deal with it as a global community and the UK is going to take its lead, you cannot dodge justice and equity. When you take it to a very local level, it is getting to "leave no one behind". The hardest to get and the most marginalised are the women who are left at home when the men migrate. It is the toughest part to get to when you take it to that local level, which we do, and it is justice at different levels. It is challenging but it should be a challenge that one, like the Scottish Government, is willing to stand up and talk about because it has been a bit hidden in the negotiations.

Q59 **Mrs Latham:** My first question will be to Alison. All your written submissions indicate that climate change has a disproportionate impact on developing countries. Why does climate change disproportionately affect the very poorest?

Dr Doig: One thing I want to say upfront, to build on what was said, is that all of our development is now in this context of climate change and will increasingly be so. We can no longer talk about climate change in a 2 degree world with the IPCC 1.5. If we do not keep below 1.5, the development agenda is in serious crisis. That means keeping all carbon emissions reduction efforts to 1.5. In fact, we work with the Asian Climate Change Consortium and, when they talk about 1.5, they talk about the urgency of it. They do not talk about how we mitigate to get there. They talk about the absolute desperate need of the small islands. Countries like the Philippines are made up of small islands that are all coastal, mainly low-lying and marginalised because they are away from the capital. It is a desperate need. However, where we are heading to at the moment with the climate negotiations is 3 degrees, which is unimaginable. That is 1.5 very quickly, followed by 2 and followed by 3. It is not that we will suddenly get to 3 degrees; it is a progressive thing, hence the urgency.

We did a study that looked at cities. In cities like Dhaka or Manila, there are a lot of people living in vulnerable places, often in the most marginal floodplains in that community. When flooding happens and when typhoons happen, they are hit and everything they have is decimated unless they have a strategy in place. We did some work with DFID many years ago, which is under threat with the terrorists in the Philippines, to get community action plans going in Manila.

Unless you prepare them, they are very, very vulnerable. They do not have insurance. They do not have bounce-back mechanisms. They do not have somewhere else they can go. It is not just that they are in countries that are most affected. Look at Haiti. One side of the border over in Dominica is safe and robust. However, in Haiti, the people are very poor and very vulnerable and the infrastructure is very vulnerable. It is that vulnerability at the heart that makes that impact.

Yes, it is the urgency and the vulnerability of these people.

Q60 **Mrs Latham:** The second part of my question is to Ha Chu. ActionAid's submission indicates that climate change has an impact on women in particular. How are women in Vietnam disproportionately affected by climate change?

Chu Thi Ha: Thank you very much. Let us take a look at the situation in Vietnam. I would like to draw your attention to the negative impacts of climate change and climate disasters that Vietnam is facing. According to a recent vulnerability study, it is thought that Vietnam is facing a change in grazing patterns with droughts, floods and landslides that will lead to crop failures, the death of livestock and the destruction of homes and farms of the local people. Mekong Delta is the most affected area. We found that, for the year 2017, the total loss to Vietnam from climate change is $2.6 billion, equivalent to 1.3% of total national GDP.

Among the total population of 18 million people in the delta, over the past 10 years 1.7 million people have migrated out of their homes and their villages because of the loss of livelihood, houses and farming land. They have to move to live in uncertainty in the urban areas.

This is a very general situation in the country and, within that situation, women are the most affected because, due to the social and gender inequality, women are harder hit but they have less capacity to respond. For example, gender inequality leads to poverty and climate change makes it more serious. Women are more likely to suffer from food insecurity than men and the natural disasters and climate disasters are more likely to be fatal for women, people with disabilities and children than anyone else in society.

In my country, smallholder farmers are doing their business with farming and they are very frightened by climate change.

Q61 **Mrs Latham:** Thank you. ActionAid also recommends that DFID should mainstream women's rights into all the climate change programmes. What does this look like in practice? Are there any examples where this has really worked well?

Chu Thi Ha: Through our approach in combating climate change, we highlight that any approach to combating climate change taken by ActionAid should be community-led and women-led. We promote women leadership. This is the story of women because women are the most affected, and children are affected because women are suffering. We engage women in the story to build women organisations and to build their capacity to learn about the coping mechanisms against natural disasters and recovery from climate change. We provide microfinance for them to practise the sustainable precaution model, for example with regards to hydro-ecology, so that they can diversify the crop structure and can produce environmental-friendly and healthy farming products even in the situation of a reduction of rainfall or drought. Those are some examples of the work we are doing in the field to engage women and to promote women's leadership.

Q62 **Mrs Latham:** You mentioned that so many women and children migrate but are there any other concrete examples of where climate change has actually affected the poorest people, who are, as you say, mainly women and children?

Chu Thi Ha: Another concrete example is the unpaid care work and the impacts on the livelihoods of women. As you know, climate change further impacts women when the unpaid care work increases along with food insecurity and hunger. Women have to do unpaid care work such as household labour, family care and society care so they have less time available to learn how to cope with climate change. They just spend time with the children and the family and are dependent on their husbands so it prevents women from learning new skills to cope with the new story of climate change.

The second point I want to make is the combination of the lack of livelihoods and the increase in unpaid care work preventing women from accessing education and income opportunities. For example, spending more time cooking and taking care of children means that women cannot go to school or that little girls have to drop out of school to take care of family. There is also the tradition of child marriage where the girls are sent away from their homes to preserve family resources and to improve the financial situation of the family. Those are some examples I wanted to highlight.

Chair: Thank you. These are massive areas. We are halfway through the time and barely a quarter of the way through the questions, so can we have much shorter answers, please, or we are just going to lose questions at the end that we want to ask you?

Q63 **Paul Scully:** I will turn to Ruth, if I may. Your written submission—and you have mentioned some of this in your opening statement as well—talks about DFID deepening its understanding of the links between climate change and the natural environment. You have explained why the focus of the natural environment is important when designing the climate-related developments programmes, but how do you see DFID's specific lack of focus on the environment manifesting itself in its own programmes?

Dr Fuller: If you want to understand how climate change impacts on people, you have to understand the links between climate change and the environment. Climate change, first and foremost, plays out through changes in natural processes, systems, availability of natural resources, and that then goes on to impact on people. The Millennium Ecosystem Assessment was 10 years ago, and that pointed out very clearly that poor people are disproportionately impacted when natural resources are degraded or systems are under stress. That is the link between poverty and environment, and environment and climate change.

DFID has no doubt been a leader in the climate change space. Ever since the Stern Review in 2006, DFID has been one of the first development agencies to really understand climate change and respond to it and scale up their capacity in the area of climate change. However, that understanding of how climate change then links to the natural environment and plays out through ecosystem change and through the availability of natural resources is not there. There is not necessarily that much of a connect between climate change and the natural resource components.

One of the things I wanted to highlight was the way in which natural environments impact on people. I mentioned coral earlier. Coral is lost at 2 degrees. It is gone. This is not just an issue for when we look at "Blue Planet" or go diving or whatever it might be; coral reefs are home to 25% of the world's marine species. They have benefits extending to 500 million people. Without coral reefs, 197 million people lose their protection from major storms, and their demise therefore has significant impacts on people. However, DFID is not necessarily investing in understanding marine ecosystems, understanding oceans and understanding how natural resources interplay with poverty and interplay again with climate change. Building their understanding of how coral systems, marine systems, wetlands and so on can almost buffer and help build the resilience of communities would be one area for investment.

Another area where there is policy incoherence within DFID is in their economic development strategy that they recently published. Climate change does appear but it does not appear until something like page 28 of a 35-page document. Climate change is not a major thrust in that document. It feels very much business as usual in terms of the models of economic growth that they are championing. DFID should be absolutely explicit that it is championing and investing in a model of development that is consistent with a 1.5 degree warming scenario and that it is safeguarding natural resources for current and future generations so that they can build their livelihoods and also be able to respond to climate change, and that is missing in DFID's current economic development strategy in which it pitches its overarching economic programme.

Q64 **Richard Burden:** My question is mainly to Alison. Christian Aid's written submission says that ICF spending should be additional to existing official development assistance spending. I can understand that you are saying that you would not wish ODA to be squeezed to fund ICF spending or, conversely, ICF funding to be squeezed by getting it mixed up with ODA spending. Is your objection because you are worried about that squeezing effect, or is there something in principle that you are against in terms of taking international climate finance spending out of ODA?

Dr Doig: This is something that all of the NGOs have said for many years. Climate change has an additional cost. With any project there will be a climate premium in terms of making it resilient and making it low carbon, although I would say that the costs in terms of low carbon are reducing and that we are starting to see those win-wins. You have your ODA costs and then you have your climate-specific transformation funds.

Every single bit of international development spending should be climate-proofed. It should not need climate funding to be resilient; it is absolute business sense to be climate resilient. If you are investing in infrastructure and in agriculture, you have to predict for five, 10 or 15 years' time. If you are investing in energy, you have to make sure that it is not adding to the problem. If you have an economic strategy that does not stop climate change, you have a wrong and flawed economic strategy. We are seeing it across the board.

An aside to that is that overseas development assistance is already funding fossil fuels. It is now through the CDC and through the Prosperity Fund. There is money going to China for fracking and capacity-building. There is money going to the Mexican Government through the Prosperity Fund to raise capacities and to link to Aberdeen. There are an awful lot of linkages and burping up of fossil fuels. How can you have money spent on reducing our carbon and creating resilience while still propping up the fossil fuels sector? Our export credit supported more finance towards fossil fuel in terms of credit guarantees than the ICF over the same period. There is a total contradiction in what we are doing in terms of our international, outlooking spend, and that all has to be going towards 1.5.

My point is that all aid should be climate-proofed. All aid should not add to climate change. The ICF ought to be additional and transformative. It will be seen as transformative. That is my point. We can argue "additional" all you like—additional because we feel it in principle—but it should be transformative. What is increasingly happening through mainstreaming, rather than projects seeing it as business as usual and good practice, is that they are trying to say, "We will slice that bit of the project off you and we will call it 'climate' and we will get a bit of the climate money," and, "We will put a bit more efficient stuff in this project over here and we will call it 'climate' so we will call our whole project 'climate money'." It is being salami-sliced up and sprinkled all over and disappearing into projects rather than the transformative resilience being monitored, working with climate scientists.

I can talk about some good projects. I do have some good things to say about DFID as well but this is our worry: that it just disappears into that general ODA pot when it should actually be doing stuff that really transforms us into this new climate reality that we are in.

Q65 **Richard Burden:** What sources do you think it should come from, if it is going to be transformational?

Dr Doig: It has to work alongside ODA. Wherever it comes from, we have to be working globally. We have a responsibility as a wealthy nation with a long international history. It has to be working alongside it. We have a responsibility as a nation within this climate justice framing of the UNFCCC to do our damnedest at home but also to make sure we are doing our damnedest internationally in terms of the climate resilience work. Within the UNFCCC, there is a global requirement to do that. We as a country have an obligation to find that resourcing.

I do not specifically want to battle on additional sources and where it comes from; I just think there needs to be a recognition that it is an expectation from a climate justice perspective that the UK will provide that and will start to transform not just our own economies but economies around the world, particularly if we are going to be trading with them. We do not want to get tighter and tighter and actually then just bringing in beef from a high carbon source. Externally, it is not a very good strategy moving into Brexit trade negotiations if you take high carbon from around the world while tightening at home. There is a lot of sense in that strategy as well.

Q66 **Richard Burden:** I absolutely take your point about the importance of all development spending, whichever budget it comes from, being climate-proofed but could I just play devil's advocate a bit on this issue about whether ICF should be seen to be part of the ODA budget or not, even if that ODA budget is expanded? It is clear that the principles of the International Development Act govern the ODA. The focus is meant to be on poverty reduction. We have already heard that it is actually impossible to do what you need to do on climate without a focus on the poor, and it is impossible to have a focus on the poor without adequately addressing climate. Would there not be an argument that, as long as it does not squeeze the ODA budget, ICF funding should be seen as part of the ODA budget?

Dr Doig: In terms of additionality, when the 0.7% was set up, climate change was not on the agenda. There has to be a recognition that, in particular, resilience, adaptation and, for many nations, getting low-carbon energy to people who need it has an additional cost to that. If you want to talk principle, the 0.7% was set pre climate awakening. Any additional cost is an additional burden. It has been allocated to education, agricultural development and urban expansion. Anything else should be additional. I am not saying that it should be spent separately; I think it should be working along with and very much integrated in with the development spend but, as I say, we should be able to track what we are doing better on climate change.

At the moment, with the little projects here and there, there is no real evidence that it is transforming the ways of working in the economy. They ought to be spent hand in hand. I do not disagree with that. If you want to go on principles of additionality, we have been saying this for many years; we accept the current situation but hopefully I have made my point.

Q67 **Chair:** Alison, developing this further, your point about the importance of this being transformative is well-received by the Committee, and your submission makes the point about the lack of strategic approach by DFID. Do you think other parts of Government—BEIS and DEFRA—are better at spending ICF strategically or would your criticism apply to them as well?

Dr Doig: There is a trend. What DFID has done well is the community-based stuff. We as Christian Aid had our ECRP project enhancing climate-resilient communities in Malawi, which, over five years, worked directly with communities. We were funded to directly work with communities to build their own resilience, to look at their own needs and to work with climate science, which was coming in to have specific interventions. When El Niño happened, we got an extra sum of money from DFID. DFID can track and is focused on poverty alongside the climate benefit.

Unfortunately, having got an A* rating off DFID, that fund has now been pulled, and the longevity of these programmes really need to be focused on. If you are going to pull money, you need to phase out. You need to leave some legacy there. The pulling out is not leaving that legacy. I can talk about other work that is similar.

The further it moves from DFID, the less poverty impact you can track. That is often into the multilaterals, it is into BEIS and it is into DEFRA. Actually, it often goes to BEIS. I am not criticising BEIS because BEIS had a very strong focus on carbon and cutting carbon, and it does that strongly. Where it has less focus is on how that interacts with poverty reduction. With CDC and all these other funds, there is a lack of transparency in how those two things go hand in hand.

I just have a little side note on the private sector investment. My worry is that we are chasing the leverage—"I have put so much in and I have leveraged this amount"—and that that objective means going into safe private sector projects. Your consideration then is not about reducing poverty or reaching the poorest. Would that programme have happened anyway? Is it good business sense to do it? There needs to be a bit more robustness in assessing it in terms of whether it would have happened or whether some regulation or a change of non-financial incentives would have delivered that or whether it is better spent in actually building that resilience base or the disaster preparedness in a community. The other fund that DFID have pulled out is the disaster preparedness programme, which they have not replaced yet and which is very much about the localised responses that the World Humanitarian Summit called for.

Our concern is that drift within DFID from community and local to private chasing the money, when there are other ways of doing that. As I say, the further you get, the more robustness is needed in how you assess the poverty and how that is actually delivering the SDG outcomes and the human rights and the other issues that we are looking at.

Dr Fuller: Briefly, there is a transparency issue with the ICF. From a public position, it is actually very difficult to track where ICF money has gone and the impact it is having regardless of the department it goes by.

On innovative sources of finance, we could also be looking at raising climate finance through taxes, levies and engagement with industry and the private sector. The policy coherence point is also absolutely critical. The Environmental Audit Committee launched an inquiry yesterday looking at UK Export Finance, which, in 2016, funded £1.2 billion into fossil fuels. This policy coherence point is absolutely crucial.

Chair: Lovely, that is our next line of questioning. You do not have to answer the next one.

Q68 **Chris Law:** A number of us have been asking for years now that funding for oil and gas upstream projects be stopped. I believe £11 billion was spent in 2015-16 by the UK Government and yet they deny that they are spending anything on new projects. Obviously the World Bank has now cancelled theirs as of next year, which is good news. The question I want to ask is: why is the UK failing so spectacularly in this? Are they trying to hide it and, if so, what are they attempting to get out of it? Obviously, it is incompatible with the IPCC report on the situation with climate change and the investment being put into climate change projects.

Dr Fuller: All ODA and all UK Government money should be spent in line with 1.5. We really need to come down on that. CDC still has investments in fossil fuels. As I just said, UK Export Finance has a shocking level of investment in fossil fuels.

Interestingly, ODI did a report that said, across the G7, all Governments have provided new public finance for oil and gas exploration and production since 2016 when the Paris Agreement came into force, totalling $100 billion annually. That is new investment in fossil fuels since the Paris Agreement, which is pretty astonishing. This is an area that we absolutely need to get right.

Also, DFID and the UK Government should be using their leverage within multilateral development banks. As far as I know, no multilateral development banks have a 1.5 strategy or a way of making sure that their investments are compatible with 1.5, and that is something that DFID should be championing because it has a significant amount of influence on a number of multilateral development banks. They should absolutely be using their influence there.

Q69 **Chair:** Ruth, could you say something about the Green Climate Fund?

Dr Fuller: I will leave that to Alison, if that is okay.

Dr Doig: What I find really interesting when you talk about finance, whether it is ODA, multilateral banks or even big newer banks like HSBC, is that they are really great at presenting their good projects and their clean projects, and they are the ones they promote. What they are also very good at is hiding the bad ones and the fact that business as usual is going on in the background—"You do your clean stuff over there with green bonds but the big-boy economy is where we do fossil fuels"—and there is a real separation in that.

As an example, the World Bank, after a lot of pressure, has said that it will not fund coal anymore, which is outstanding, although its private sector wing still funds banks that fund coal in the Philippines and Vietnam. There is money that is still getting there. They are still funding oil and gas. As you say, the World Bank has had two huge fantastic announcements, and all the multilaterals have said that they will try to deliver Paris by presenting the positive work; but they do not look at the big shift out of fossil fuel and the big shift into renewables. The UK can use its leverage, as you have said, a lot more sophisticatedly to say, "Look at your whole portfolio." We have heard this a few times—"Look across portfolio and see where that shift is going."

On the Green Climate Fund, when it was originally conceived, there was an idea that it would be an even balance. I think I can talk to this. The countries could say, "These are our needs for mitigation and adaptation. Here is our fund. It can be matched. There is a good governance process." There are different ways of delivering on that, whether it is Governments or NGOs. The World Bank funds would actually sunset and move out, and the Green Climate Fund would actually, under good governance, take over. My feeling is that a lot of the World Bank announcements are then staking a claim to keep the climate finance governance and actually they have not had enough money go into it. We need to renew it, to make sure it can show itself. The governance within the GCF is not working yet.

Chair: Yes, I have a specific question on the Green Climate Fund but I want Chris to be able to finish his line of questions.

Q70 **Chris Law:** How could the UK be transitioning away from ODA programmes that support the fossil fuel economy? Ruth, how can the UK improve its climate screening to ensure that all ODA promotes climate compatible development?

Dr Fuller: I can certainly talk to the climate screening point extremely briefly. DFID, like all development institutions, has a policy in place for screening its programmes. It has its smart rules that were introduced in 2014 but it is unclear how effectively these operate and what impact they have on actual decision-making: what does not get through because smart rules have been applied?

Also, smart rules do not apply to external investments, so through CDC or through multilaterals, as we have discussed, so you cannot actually track the impact that DFID money is having.

There is also not enough evidence in the public domain to say how those smart rules have been applied. There are 10 principles in them, one of which is "doing no harm", which includes harm to the natural environment and harm from a climate perspective, but there is more that can be done on the stress-testing side. There are some key questions that DFID should be asking about every single investment that goes forward: is it compatible with 1.5 degree level of warming? Does it help us to adapt to climate change? Does the investment impact on the ecosystem, goods and services that people rely on, which will then be impacted by climate change? Also, importantly, does this investment stand up under different climate scenarios? Someone talked about harbour and port investments. You do not want to be investing large amounts of money in stuff that will be underwater very shortly or washed away, or agricultural programmes that rely on water that is no longer going to be there in a climate-impacted future.

Those types of questions should be much more embedded into their screening process and decisions should be made accordingly.

Q71 **Chair:** I am very keen to hear from Ha Chu the perspective in Vietnam about the Green Climate Fund and how effective it has been, and particularly any thoughts you have on how it could be improved.

Chu Thi Ha: Yes. ActionAid's experience, as a CSO, is that we hope to get access to the Green Climate Fund. Recently, we have done a number of interventions with them and we have found a number of barriers to accessing the funding. They are actually complaining a lot about the disbursement rate. They want to disburse money to get more accredited identities but they also fail. We are discussing what the key barriers are. The first is the co-financing requirement. They want to support the community-based organisations but the co-financing requirements prevent small actors from accessing this fund. They also said that it enhances the ownership and transfers the risk but it means that a small actor cannot afford to do the co-financing.

The second is that the selection criteria are quite vague and sometimes too technical. The Green Climate Fund says that it wants to get scientific evidence about climate change, and this is where CBOs—community-based organisations—are suffering when they are supporting a proposal.

Thirdly, accredited identities are mostly coming from international identities, such as the World Bank, UNDP and ITC. It means that, when they get a fund, there is a recycling of the funding to the developed countries and a reduction of investment to developing countries to combat climate change.

Fourthly, the climate finance is provided as a loan in many cases rather than grants. This is a key barrier. We hope that DFID can take this into consideration in the future.

Chair: Can I say a massive thank you to all three of you for providing a lot of oral evidence in a 45-minute period? There is a great deal that we will be taking directly from each of your three pieces of oral evidence. Thank you. Sorry that we did not have a bit more time. Keep up the great work.