Joint Bond and Climate Action Network UK submission:
IDC Inquiry on climate change, development, and COP26. May 2021

Introduction

1. Bond is the UK network for organisations working in international development. We unite and support a diverse network of over 400 civil society organisations to help eradicate global poverty, inequality, and injustice.

2. The Bond Development and Environment Group (DEG) brings together environment and development INGOs to work at the interface of poverty and environment issues, to increase understanding of the interconnected nature of both, and to advocate for greater recognition of environmental imperatives in UK development policy and related policy areas. DEG engages with a wide range of stakeholders from across government and the environment and development communities, and has a recognised and established role to play in informing UK government decision-making across the agendas that link environment and development.

3. On 4th May 2021, Bond DEG became Climate Action Network UK (CAN-UK). CAN is the world's largest climate network made up of over 1,500 civil society organisations in over 130 countries, driving collective and sustainable action to fight the climate crisis and bring about the transformational change in our societies and economies that ensures equity and justice; poverty eradication; sustainable livelihoods; and the protection of the rights of nature.

Summary

4. The UK has a good track record on many climate finance issues, and in the UK Biennial Finance Communication to the UN Framework Convention on Climate Change 2020 submitted in December, retained the commitment to 50% UK ICF for adaptation and committed to £11.6bn over the period 2021-2025. The UK also continues to provide the vast majority of climate finance as grants (89% from 2016 to end 2019), and has adopted a new policy to end fossil fuel investments overseas.

5. However, there remain many areas where action and improvements are still much needed, and many IDC recommendations have not been taken forward - or only partially. The UK needs to go further in supporting developing countries to adapt to climate change, address loss and damage, and pursue low-carbon development pathways.

6. Of most concern are the recent aid budget cuts that erode the UK's credibility as hosts of G7 and COP26, as well as undermine efforts towards the sustainable, just, and resilient future envisaged in the Paris Agreement and SDGs. In the face of a global pandemic; the climate crisis; loss of nature; growing inequality, insecurity, and poverty; now is not the time for the UK to be stepping back from

this vital commitment. Reducing the ODA budget - while at the same time drawing on it as the only source of climate finance - will inevitably harm the most vulnerable in society, pushing huge numbers (back) into poverty.

7. The UK has not yet shown the leadership necessary on loss and damage to stand up for those suffering the worst impacts of climate change. Loss and damage is the third pillar of climate action recognised in Article 8 of the Paris Agreement, but is insufficiently prioritised and addressed in UK COP26 Presidency initiatives and activities to date. Yet without addressing the rising levels of loss and damage, adaptation will be increasingly undermined and will ultimately fail. The UK needs to show leadership on this urgent issue as failure to make substantial progress on this vital issue for vulnerable countries risks failure at COP26.

8. Despite global commitments to provide a balance of finance between adaptation and mitigation, funding for adaptation continues to lag behind, consigning the poorest people to remain the most vulnerable to climate change impacts. A breakthrough on scaling up adaptation finance is a critical outcome for COP26. As COP president and a country that *does* provide 50% climate finance for adaptation, the UK is in a strong position to amplify the UN Secretary General's call for all donors and multilateral development banks to allocate at least half of their climate finance to adaptation, improve ease of access to finance, and expand debt relief and other debt related initiatives that would provide much needed liquidity, especially for the most vulnerable.

Questions 1 and 2: UK progress on implementing the Committee's recommendations, particularly those on climate finance, climate justice, and use of ODA to support fossil fuels, and making climate change a strategic priority in all aid spending – and remaining gaps.

The UK Government is setting a good example internationally by adopting and meeting its commitment under the Paris Agreement to spend 50% of International Climate Finance on adaptation. This should be maintained in the next spending period: *Progress.*

9. The UK seeks to provide a balance of funding between adaptation and mitigation, and over the period 2016-2020, estimates to have spent 47% of UK ICF on adaptation action. In the UK Biennial Finance Communication to the UNFCCC 2020 submitted in December, the UK stated "Our aim for the next five years is to continue to aim for a balanced split between adaptation and mitigation finance." While the language could be stronger on this most crucial of commitments, maintaining this approach is very much welcomed.

The Government should consider the options for additional climate finance from public and private sources: *No progress*

10. The IDC's recommendation that the UK should not regard ICF "as the sole source of climate finance" and that options for additional climate finance should be considered in order to scale up climate action beyond what is funded by ICF, has not been taken forward. UK climate finance continues to be drawn from the aid budget. The need for new and additional sources of finance is more pressing than ever in the context of rising levels of hunger globally, escalating loss and damage from climate change impacts, the ongoing pandemic, and cuts to the UK aid budget.

11. Various UK governments have interpreted "new and additional" in different ways. While we interpret it as new and additional to the international standard that has existed since 1970 for countries to provide 0.7% GNI as aid, we have been repeatedly told by this government that UK

climate finance commitments are justifiable as new and additional because they have been provided through growth in the aid budget (as the economy has grown so has 0.7% of GNI) and so climate finance has not diverted or taken away any pre-existing aid spending in other areas. That position is no longer tenable in light of cutting the aid budget especially with climate finance commitments increasing. Climate finance is now coming at a cost to other development and humanitarian priorities.

12. In the UK Biennial Finance Communication to the UNFCCC submitted in December 2020, it was stated that "Our funding will be new and in addition to our previous £5.8bn ICF commitment." It should go without saying that a financial spending commitment for the period 2021-2025 would be in addition to money already committed and spent in a different period (2016-2020). That is so very clearly not what is meant by "new and additional" under the UNFCCC, and the government needs to consider its position and credibility on this issue.

13. Faced with a climate emergency not of their making, developing countries had a reasonable expectation of *extra* support, and under the UNFCCC countries including the UK committed to provide this. However the cuts to the aid budget now present a double cut in support to developing countries that have not received new and additional climate finance, and now will receive both climate finance and aid from the same - but much smaller - pot. Climate finance was not meant to come at the cost of other critical ODA areas, yet this is now the case as the UK fulfills its climate finance commitments from an aid budget that it has chosen to significantly cut, and which has in addition shrunk due to declining GNI.

14. It is also concerning to note that adaptation programming is among the spending currently being considered by FCDO for cuts. The UK-funded Building Resilience and Adapting to Climate Change in Malawi programme is facing severe cuts. Cuts to this programme will halt long-term resilience building and adaptation interventions that are effective in reaching the poorest and most vulnerable people, undermine learning from effective action, and significantly reduce value for money. These actions are in stark contrast to the UK's ambitions for adaptation and undermine essential trust in the UK in the run up to COP26. We urge the IDC to look in detail at the implications of the aid cuts on the UK's priorities and COP26 Presidency.

15. Annual adaptation investment needs in developing countries are currently estimated to be in the region of US$70 billion, with the expectation of reaching US$140–300 billion in 2030 and US$280–500 billion in 2050. The UK must lead the way in identifying new sources of grant-based public climate finance to ensure that climate change support does not come at the expense of vital ODA spending in other areas, and does not increase the debt burden on countries. It is clear that ODA budgets alone will not be sufficient to meet rising climate finance costs alongside other critical development needs.

The Government cannot rely on co-benefits from other streams of work on resilience to address loss and damage. As part of its leadership on resilience at the Summit in September, the Government should explicitly open a conversation around loss and damage and how it can best be addressed, by developed and developing countries in partnership: *No progress.*

16. In the Paris Agreement, all nations commit to pursue efforts to limit global temperature rise to 1.5℃. Limiting temperature rise to 1.5℃ is a matter of survival for many vulnerable countries and communities, especially small island developing states. The world has already warmed by more

than 1℃, and is on course for more than 3℃ of warming without urgent action. While the temperature goals of 1.5℃ and 2℃ are sometimes presented as 'safe' levels of warming, there is no safe level of warming, considerable loss and damage is already happening, some of it irreversible – and beyond 1.5℃ the impacts will vastly increase as evidenced in the IPCC's special report on 1.5℃.[i]

17. Developing countries and especially communities on the frontline of climate change impacts are paying the costs of climate inaction. It has been estimated that by 2030 the costs of loss and damage will range from US$290 to 580bn per year in developing countries alone. Scaling up support to address loss and damage is pragmatic and will help create a safer, more resilient world. It is also a matter of climate justice that climate action is supported holistically. That means mitigation, adaptation, and addressing loss and damage – all must be made politically important as all are matters of survival for the most vulnerable.

18. The UK has not taken up the IDC recommendation to open up an explicit conversation on loss and damage either at the Climate Action Summit in September 2019 or more recently at the Climate and Development Ministerial on 31st March where the term was hardly used. Despite repeated calls for loss and damage to be reflected prominently in the themes of COP26, the UK presidency continues to champion "Adaptation and Resilience" as a key theme, and although we are told this includes loss and damage, at the time of writing it is not even mentioned in the description.[ii] The theme of Adaptation and Resilience ignores loss and damage entirely and uses instead the term "resilience" as a blanket term, ostensibly to include loss and damage without explicit recognition. This hiding of a specific element of climate action covered by the Paris Agreement (Article 8) is problematic because it demonstrates that the UK is not recognising and engaging constructively with an agenda that is critical for more than half the world's countries, and despite the UK billing COP26 as an ambition COP, there remains no articulation by the UK presidency of what an ambitious outcome on loss and damage looks like or a way forward. We would like to see a presidency paper on loss and damage setting out the priorities of developing countries on this issue and what needs to happen this year to advance it, just as has been produced for climate finance.[iii]

19. To date most engagement from the UK on loss and damage has been the promotion of insurance as a mechanism to reduce climate risk and respond to climate impacts. However when Hurricane Maria struck Dominica in 2017, insurance from the Caribbean Climate Risk Insurance Facility covered less than 2% of the total damages. Insurance is an important tool in managing impacts of disasters, however prevention and preparedness measures are the most effective ways to reduce fatalities and limit damage, and so action in this area must be scaled up through new and additional grant finance, and debt burden removed for countries suffering impacts to prevent a perpetual cycle of poverty and unsustainable debt as loss and damage increases.

The only context in which it is acceptable for UK aid to be spent on fossil fuels is if this spend is ultimately in support of a transition away from fossil fuels and as part of a strategy to pursue net zero global emissions by 2050: *Some progress, but gaps remain.*

20. The UK's new "aligning UK international support for the clean energy transition" policy came into force on 31st March, to end all direct support for fossil fuels overseas. Both a previous IDC inquiry into UK aid for combating climate change and an inquiry by the Environmental Audit Committee into UK Export Finance (UKEF) support to fossil fuels highlighted that supporting fossil fuels was at odds

with the Paris Agreement and was undermining the UK’s own spending on tackling climate change overseas.

21. By taking forward these recommendations the UK is setting a new standard for other countries to follow. However, what remains of concern is that there are a number of exemptions or “exclusions” in the policy guidance that allow for the continued expansion of gas. These exemptions weaken the otherwise high standards set by the policy and undermines efforts to meet the Paris Agreement goal to limit global temperature rise to 1.5 ℃.

22. Key among the exemptions are the CDC and the Private Infrastructure Development Group (PIDG) under the premise that CDC is a public company with its own board and FCDO is not directly involved in its investments, and that PIDG is a multi-donor funded institution, of which the UK is just one donor. Yet as the single largest donor, the UK has a high degree of control over the activities of the London-based PIDG. Since its formation the PIDG has made commitments of US$781.5m to fossil fuel power; US$138m to gas transportation, distribution, and storage; US$116m to mining and upstream oil and gas; and US$96m to oil transportation, distribution, and storage, including many of the same projects supported by CDC and UK aid-funded MDBs. Further, the UK government is the CDC’s only shareholder and the UK has provided CDC with approximately £4.3bn in capital since 2015. CDC Group has a portfolio of fossil fuel investments worth approximately US$988m as of December 2019. Between 2015 and 2020, CDC received a total of £3.5bn from DFID (including £1bn in 2019 and £650m in 2020), and is scheduled to receive a further £779m from the UK government in 2021. Therefore the government clearly has both the means to enforce a complete phase out of fossil fuel finance on CDC Group, and the knowledge that this will have a significant impact in reducing the UK’s support for fossil fuels.

23. The UK government’s argument for these exemptions rests on its claim that these loopholes will be used sparingly and that gas power can be a greener alternative to coal and oil. Yet over 90% of the value of CDC’s current direct investments in fossil fuels would be allowed under its current policy. It has been demonstrated that gas power will lock-in high carbon emissions for generations to come, breaking the carbon budget, and guaranteeing higher levels of global warming.

The UK should use its influence with MDBs to champion more strongly a shift away from high-carbon investments and a scaling up of investments that are compatible with a 1.5℃ world. The Government should work together and coordinate with other MDB shareholders to amplify pressure: *Progress.*

24. The new policy to end the use of UK aid to support fossil fuels does however determine the UK voting position at the boards of Multilateral Development Banks (MDBs). This is a positive step forward and we gather the UK is already using the criteria within the policy guidance at the World Bank. This is particularly welcome when there is much pressure to get MDBs to fast track their Paris alignment - which has been committed to for some time, but the action and implementation is slow. UK engagement with other shareholders to advance these aims would also be welcome.

Climate change needs to be recognised as a cross-cutting strategic priority in the UK’s aid spending and should be comprehensively integrated across all development assistance strategies: *More progress needed.*

25. Policy coherence – and alignment to both the Paris Agreement and Agenda 2030 – must be achieved across the entire UK ODA portfolio and foreign investment. Development pathways must

minimise future greenhouse gas emissions whilst bringing about economic growth, social inclusion, and equity in a changed and changing climate. Policy coherence is needed to ensure that it is not just climate finance that is spent in alignment with these goals, whilst other ODA commitments continue to be spent incompatibly.

26. Risks and change associated with climatic changes must be understood and prioritised across international development, and people who have been made most vulnerable to climate change and its consequences must be prioritised. While progress is being made on fossil fuels specifically, it remains unclear how climate change will be mainstreamed through all aid spending as it needed, and instead climate change seems to be treated as a strategic priority just in terms of climate finance now commanding such a large proportion of ODA.

27. For example, the climate resilience, reduced emissions, and increased carbon sequestration benefits of agroecology are widely known. Indeed in the Business Case for one of the largest FCDO ICF-funded projects for agricultural development, the Adaptation for Smallholder Agriculture Programme (ASAP) implemented by IFAD (£150 million), directly quotes (in para 29) research on smallscale farmers practicing sustainable and agroecological approaches delivering increased yields of 79%, increased water use efficiency, and increased carbon sequestration[iv]. However according to a recent study, only 5% of UK ODA support to agriculture overall is directed to agroecology.[v] Conventional agriculture has been identified as the primary driver of biodiversity loss, with a 68% decline globally since 1970.[vi] With agriculture and food also contributing more than a third of greenhouse gas emissions,[vii] it is clear that transformation of the food sector with respect to mitigation has to be as significant as transformation in the energy sector away from fossil fuels. However the needed strategic coordination to maximise high quality adaptation-mitigation-nature-based solution co-benefits is currently absent.

28. Given the Climate and Environment Emergency declared by the UK Parliament in 2019, the lack of support for climate resilience and environmental sustainability through UK ODA support for agriculture represents a significant failing. At the UN Climate Action Summit in the same year, the UK launched the Just Rural Transitions (JRT) initiative which has encouragingly included agroecology and the need for associated actions, such as subsidy reform to reduce the overwhelming focus on greenhouse gas-intensive and environmentally-degrading chemical inputs. JRT should act as a framework and catalyst for the reorientation of all UK ODA for agriculture to genuinely climate resilient, sustainable agroecological solutions for the poorest and most vulnerable in developing countries, 70% of whom rely on smallscale agriculture for their main income.

Question 4: The potential of COP26 to address these remaining challenges effectively and the steps the Government needs to take if COP26 is to succeed in tackling them.

50% climate finance for adaptation.

29. While the UK has maintained its commitment to 50% climate finance for adaptation, it has not called on others to do the same, which it must do to ensure COP26 delivers on the Paris Agreement of a balance of finance across mitigation and adaptation. To ensure process at COP26, the UK must publicly support the UN Secretary General’s call for all contributing countries and multilateral development banks to commit to allocating at least half of their public climate finance to adaptation, and build a coalition of countries and partners in advance of COP26 committed to this aim as well as increased grant-based finance and improved access to and quality of adaptation finance. The UK must also support an agreement at COP26 for a new, post-2025 global public finance goal

specifically for adaptation – given that the overall US$100bn goal has failed to address the ongoing neglect of adaptation.

New and additional climate finance from public and private sources.

30. It is vital that COP26 substantially scales up climate finance for adaptation and for loss and damage, including from genuinely new and additional sources. The scale of the climate change challenges faced put this beyond what countries can provide through aid budgets alone. But there are a number of challenges.

31. The cuts to UK ODA undermine the COP26 Presidency's ability to persuade other wealthy countries to raise finance for climate action. The UK has doubled its climate finance to £11.6bn for the period 2021-2025 and is urging other nations to do the same by COP26. However, by defending the aid cut by arguing that existing commitments were unaffordable given the current state of public finances, they invite the same argument against increasing climate finance from similarly fiscally constrained donor countries. Despite concerted emphasis on climate finance by the COP26 presidency, progress is not being made, which could be attributed to the poor example set by the UK in only managing to deliver an increased climate finance commitment at a direct cost to other aid spending.

32. The UK cut to ODA severely damages the solidarity that the UK has with developing countries, which could impair the COP26 Presidency's ability to broker agreement at the Summit. All parties must have faith in the presidency to ensure success at any COP. Trust in the UNFCCC process to deliver on developing country priorities is already low, especially with the lack of progress to date on addressing loss and damage, and trust between developed and developing countries may have deteriorated further due to limited efforts in equitable global vaccine and stockpiling by richer nations. The cuts to ODA damage trust even further. The chair of the Least Developed Countries (LDC) Group (an important negotiating bloc of 46 low-income countries) has said that the "cuts take us in the wrong direction", coming at a time when the world's poorest countries need more, not less support. Former UN Secretary General Ban Ki Moon said the ODA cut "sends the wrong signal before COP26". Achim Steiner, the administrator of the UN Development Programme (UNDP), said the cut "sends a very mixed signal, and makes developing countries very concerned" and that "it certainly does not enhance the confidence with which developing countries come to the table."

33. Reducing ODA exacerbates a challenging political and economic environment for developing countries. Developing countries are facing multiple crises, impacting one on another, including the pandemic and climate change. Beyond the health impacts of the disease, many countries are struggling with insolvency and sovereign debt default, as a result of the global economic slowdown. African finance ministers recently issued a joint communique that declared, "Our fiscal buffers are now truly depleted". Reduced fiscal space forces countries to prioritise spending on critical social infrastructure (such as healthcare) and limits investment in climate action. This was highlighted as an area where urgent action and support is needed during the UK hosted Climate and Development Ministerial on 31st March, yet the realities of the aid cut undermine this.

34. To resolve this issue the government should immediately commit to restoring ODA to 0.7% GNI this year and commit to making climate finance additional to this. By doing so, COP26 can be a moment where the UK persuades other wealthy developed nations to do the same, and live up to the promises made in the Paris Agreement.

Addressing loss and damage.

35. The UK COP Presidency must make the necessary diplomatic efforts to facilitate a constructive process that concretely advances action on loss and damage before and at COP26. This requires the presidency to respond to developing country priorities in this area.

36. Two simple ways to do this would be to nominate an ambassador for loss and damage in the COP26 presidency team, this would show solidarity with the poorest and most climate change impacted developing countries and could greatly facilitate progress on this issue at COP26, and to document developing country priorities for loss and damage and layout what must happen this year to achieve an ambitious outcome on loss and damage in a paper akin to the presidency paper on public climate finance.[viii]

37. But political progress will only be possible if it is adequately resourced. Having a champion or a paper without resources will achieve little – real action will require scaling up finance to address loss and damage, and acknowledging loss and damage as the third pillar of climate action on a par with mitigation and adaptation.

38. To ensure sustained progress on loss and damage, the UK presidency should also support the calls of the Climate Vulnerable Forum (CVF) and the Alliance of Small Island States (AOSIS) for a regular item on loss and damage to be included in the COP/CMA agendas. If we do not talk about loss and damage we will not be able to make progress on tackling the outcome of climate inaction, and the failure of climate action to date.

This submission has been written by CAN-UK and Bond members on behalf of Bond and CAN-UK. Please contact Catherine Pettengell, CAN-UK Interim Director at cpettengell@bond.org.uk for any further information in relation to this inquiry or to arrange for specific experts from the networks to provide oral submissions to the Committee on any of the issues included in this submission.

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[i] https://www.ipcc.ch/sr15/
[ii] https://ukcop26.org/uk-presidency/campaigns/
[iii] https://2nsbq1gn1rl23zol93eyrccj-wpengine.netdna-ssl.com/wp-content/uploads/2021/01/PRIORITIES-FOR-PUBLIC-CLIMATE-FINANCE-IN-THE-YEAR-AHEAD.pdf
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[vii] FAO (2021). Food systems account for more than one third of global greenhouse gas emissions. http://www.fao.org/news/story/en/item/1379373/icode/
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