

CAFOD submission to Reset Inquiry 24 July 2020

CAFOD is an international development charity and the official aid agency of the Catholic Church. We work in over 30 countries through local partners who are often able to reach the most marginalised in their societies. Across the countries we work in, the Covid-19 pandemic has compounded socio-economic problems and exposed existing inequalities. As the UK looks to rebuild after the Covid-19 crisis, it is vital that this is done in a way that recognises that global problems require global solutions, and that action taken by the UK will have both direct and indirect knock-on effects for the world's poorest countries and their populations. We want to ensure that the UK shows global leadership in tackling this global crisis, supporting the world's most vulnerable people and ensuring a just global green recovery. We are therefore contributing to the two internationally-focused questions from Part Two of your inquiry:

11. What should be the key global priorities of the UK and what measures should the UK take to support a globally co-ordinated reset?

12. What opportunities are presented by the UK co-hosting COP26 in 2021 and/or the G7 presidency and how should these be used?

Tackling the triple emergency

The world's poorest communities are the most vulnerable to the impacts of the Covid-19 pandemic and its economic consequences. These are also the communities who are hardest hit by the ongoing climate crisis that was already threatening livelihoods and exacerbating poverty and inequality prior to the pandemic.

An estimated USD 10-20 trillion will be invested worldwide over the next 6-18 months in response to Covid-19 and its economic impacts. Recovery packages are vital to supporting those suffering the financial consequences of the pandemic, but they also provide an opportunity for the UK to transform the way we 'do' development and diplomacy in order to tackle the triple emergency of poverty and inequality, climate change and environmental degradation. Stephane Hallegatte, a Lead Economist at the World Bank Group has said: "the urgent focus on short-term needs should not overlook opportunities to achieve other longer-term goals (and avoid making longer-term goals even more challenging). Prime among these: the decarbonization of the world economy and the long-term benefits it brings."¹

The UK must use this moment to align all overseas support to address this triple emergency. This requires a coherent cross-Whitehall strategy to ensure all ODA spending, UKEF support, trade negotiations and diplomacy are targeting support towards climate-resilient, low carbon development that genuinely tackles poverty and inequality. We cannot return to a business-as-usual approach that will further degrade the environment, undermine community resilience and entrench global inequalities.

This is not only the right thing to do, but it is also in the UK national interest to ensure all its public support and diplomacy address global poverty and are aligned with commitments made under the Paris Agreement. This will cement the UK's climate leadership, including contributing to a successful COP26 outcome. It will also contribute to futureproofing the UK's own economy and open new trading opportunities in low carbon sectors, such as renewable energies.

¹ <https://blogs.worldbank.org/climatechange/thinking-ahead-sustainable-recovery-covid-19-coronavirus>

Supporting a just global green transition

Success at COP26 will require emissions cuts through nationally determined contributions (NDCs) and public finance proportionate to the urgency of the climate crisis. UK diplomacy is a critical tool to deliver the scale of action required. Specifically, the UK must use its diplomatic weight to close the gap between existing climate change pledges for 2030 (NDCs) and the level of emissions cuts needed to limit global temperature rise to 1.5°C. The UK must work with countries around the world to deliver ambitious and enhanced NDCs that are in line with this pathway.

As COP26 host, the UK must carry out enhanced diplomacy with countries most vulnerable to the climate crisis to ensure COP26 delivers on their needs, recognising that increased support for adaptation, resilience and loss and damage is a priority for many. A successful COP26 outcome will require buy-in from these countries, including Least Developed Countries and Small Island Developing States – not just big emitters. On climate finance, the UK must play a major role in building a coalition of countries to announce ahead of COP26 a pledge to allocate at least 50 per cent of their climate finance to adaptation, in order to support impacted communities.

A just energy transition must also be central to the recovery. Further fossil fuel investment is incompatible with keeping below 1.5°C of warming², yet emissions from burning fossil fuels are rising.³ Joint research from CAFOD and the Overseas Development Institute on UK support for energy overseas shows that between 2010 to 2017, the UK provided £7.8 billion of support (ODA and non-ODA) to energy in developing countries.⁴ Of this, 60 per cent (£4.6 billion) went to fossil fuel development. Almost 100 per cent of UK export finance (UKEF) went to fossil fuels, and almost a quarter of aid support (22 per cent).⁵ The actual amount of total UK support for overseas fossil fuel support is likely far higher as there is a lack of data on support through investments made by the CDC Group via financial intermediaries and through the UK's shareholding in multilateral development banks (MDBs). Additional analysis shows the Private Infrastructure Development Group (PIDG) spent \$750 million of UK aid on fossil fuel projects in the developing world.⁶

For the UK to position itself as a global climate leader in the year it hosts COP26, it must end support for fossil fuel development overseas. This means a moratorium on any new financing and a review of all ongoing investments with the long-term objective to facilitate a just transition towards renewable energy, energy efficiency and energy access. The government must adopt a 'whole-portfolio' approach that includes ODA investments, UKEF support and indirect investments such as through the CDC Group.

Debt cancellation for low- and middle-income countries in financial distress

The economic fallout from Covid-19 will hit the finances of developing countries hard, and the consequences will be felt for many years to come. The IMF has warned that Africa faces the worst economic shock since the 1970s, while others are warning of a 'lost decade' with the World Bank projecting the pandemic will push between 71-100 million people into extreme poverty.⁷ Even before the crisis hit, 34 countries were already in debt default or at high risk of being so and 64 developing countries were spending more on debt payments than on healthcare. There are poor and vulnerable people in countries

² International Energy Agency (IEA) (2018). The IEA stated in relation to publication of its World Energy Outlook (WEO) that almost all of the world's carbon budget up to 2040 would be accounted for by emissions from existing power stations, vehicles and industrial facilities.

³ Carbon Trust (2020). *Analysis: Why coal use must plummet this decade to keep global warming below 1.5C*

⁴ <https://cafod.org.uk/content/download/49429/623388/version/4/file/UK%20Support%20for%20Energy%202010-17%20Policy%20Briefing%20web%20version3.pdf>

⁵ However, UKEF's annual report for 2019-20 shows that a third of its energy support shifted to renewable energy projects. This is welcome but it is not yet clear if this is part of a longer-term, strategic decarbonisation approach.

⁶ Global Witness (2020). *In Aid Of Who? The obscure investment fund using UK aid money to finance climate change around the world,* February.

<https://www.globalwitness.org/en/campaigns/climate-breakdown/aid-who/>

⁷ <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty>

throughout Africa, Asia and Latin America who are suffering from the immediate health and economic impacts of the pandemic.

With many developing nations unable to introduce government stimulus packages for a just and green recovery, debt relief must be a global priority as the quickest way to keep finances in developing countries and enable governments to respond and rebuild from the pandemic.

Hosting the G7 in 2021 presents a crucial opportunity for the UK to show leadership in global co-ordination to oversee debt cancellation for all low- and middle-income countries that need it until at least the end of 2021. This must include debts owed to bilateral, multilateral and private creditors. As a major shareholder in the World Bank and IMF, the UK should pressure these institutions to use their own resources (for example, the World Bank's dollar reserves and the IMF's gold reserves) to fund the required debt cancellation.

Countries in the global south are in a vicious circle of dependence where they are forced to continue to borrow just to keep afloat. This vulnerability undermines developing countries' ability to make decisions about how they allocate their budgets and forces them to accept conditions placed by lenders such as the IMF which have historically meant reductions in public investment in areas such as health and education. For countries in the global south to be able to plan in the long term to invest and coordinate a just and green recovery, they need more certainty over their public finances. The UK can play a key role in transforming this situation by supporting the creation of a new mechanism for debt restructuring, preferably overseen by the United Nations, that covers total debt and all creditors. This will enable developing countries to bring debt down to sustainable levels through planned restructuring and work towards overall debt cancellation and, crucially, prevent a new debt crisis.

The UK has a track record of effectively using its presidency of the G7 to make progress on debt relief (for example, at Gleneagles in 2005). More recently, the UK has worked constructively with other G7 members, as well as through the G20, to agree a suspension of bilateral debt payments in 2020 (the G20 DSSI). To date, however, key international institutions and spaces such as the G20, G7, World Bank and IMF have failed to go far enough to adequately meet the unprecedented challenge posed by Covid-19. The UK's G7 presidency is a crucial opportunity to put debt relief front and centre for the international community and generate political will for agreement on key issues such as debt payment cancellation by bilateral, multilateral and private creditors, Special Drawing Rights (re-allocation and a new issuance), and to put additional pressure on private creditors to accept non-payments by developing countries to give them the confidence they will not be sued by vulture funds.

Socially and environmentally responsible business

Around the world, government responses to the pandemic have necessitated financial support to businesses of all sizes on an unprecedented scale in order that enterprises have a chance of surviving the lock-down period. Having received public subsidies, it is important that businesses meet society's expectations in return and ensure that they respect people and the environment consistently in their operations. Two key areas of focus are monitoring and upholding the human rights of workers through their supply chains and minimising the environmental impacts of their operations.

The International Labour Organisation has developed a policy framework, including a call that "measures for economic reactivation should follow a job-rich approach, backed by stronger employment policies and institutions, better-resourced and comprehensive social protection systems".⁸ The UK government, through

⁸ The International Labour Organisation (2020). *COVID-19 and the World of Work, Third Edition Updated Estimates and analysis: 29 April 2020*
https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_743146.pdf

policy support, UK aid and support for UK business overseas, should use this policy as the basis for its response.

In the UK, the Global Resources Initiative had already identified that 2020 offered an opportunity for the government “to convene a global call for action on deforestation and sustainable commodity supply chains in the lead up to COP26.”⁹ As part of a just post-Covid reconstruction, CAFOD supports the taskforce’s recommendation for action by introducing a mandatory due diligence obligation on business and finance. This will ensure UK business practices keep pace with similar developments at European level, in countries such as France, Germany and Finland.

Drawing on the experience of the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct, the UK government should develop a new law on mandatory environmental and human rights due diligence to support responsible business practices in operations and global supply chains and help prevent future abuses.

⁹ Global Resource Initiative (2020). *Global Resource Initiative: Final recommendations report*, March 2020, p.5.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/881395/global-resource-initiative.pdf.