HM Treasury: Autumn Statement Submission

October 2023

Written evidence submitted by the Catholic Agency for Overseas Development (CAFOD)

About CAFOD

1. CAFOD is the official aid agency for the Catholic Church in England and Wales; part of the global Caritas confederation of national organisations, each governed by their national Bishop's conference and linked to national Catholic commissions on health, education, and peace/justice issues. CAFOD partners with diverse local NGOs, including both faith-based groups and others working on human rights and other issues regardless of religion or culture.

Executive summary

2. The world is facing interconnected crises that need financial intervention, especially as the world's most vulnerable communities are already being affected by climate change. According to the OECD, there is a US$3.9 trillion financing gap to meet SDG commitments. Furthermore, 93% of nations most susceptible to the climate crisis face significant debt distress or vulnerability.

3. However, the UK Government has since reneged on its commitments to spend 0.7% of gross national income on ODA, as well as being 40% off track to reach its commitment to spend £11.6bn on international climate finance by 2025/26.

4. The Integrated Review has rightly made climate and biodiversity one of its core pillars. Therefore, CAFOD recommends that:

    a. Immediately reinstate spending 0.7% of GNI on ODA by mobilising new sources of finance.

    b. Prioritise the introduction of legislation, requiring all private creditors governed under UK law to participate in coordinated debt relief processes on equal terms as bilateral and multilateral creditors, and as a first step consult widely on the most appropriate mechanisms to do this.

Recommendation 1: Reinstate 0.7 by mobilising innovative forms of finance

5. The UK's International Development Act requires all UK aid to be focused on poverty reduction and sustainable development. Furthermore, the Government has committed to align all UK aid to the Paris Agreement, and is developing proposals to make all ODA nature positive.

6. However, it's clear that the poverty alleviation focus of ODA has been lost, as there has been an increase of spending aid domestically; and there has been an increase in ODA spending through BII, despite the International Development Committee finding that "some [BII] investments do not appear to have a clear poverty focus, some may have harmed society and the environment, while others conflict with the UK Government's policies."

7. Therefore, returning to spending 0.7% of GNI on ODA should be the minimum level of public commitment to international aid spending, but the UK Government must reprioritise ODA for poverty reduction purposes in lower income countries. Within this, the UK Government must also meet existing finance commitments to re-establish trust with other countries, such as the $100bn climate finance commitment to support climate impacted countries.

8. The UK Government should also lend its support to innovative financing through taxation. For example, the shipping industry, responsible for approximately 3% of global greenhouse gas emissions, remains largely untaxed due to its international jurisdiction. Adopting a 'polluter pays' principle, Pacific Island nations proposed a $100 per-tonne-of-CO2 fee on international shipping voyages, projecting potential revenues of $40 to $60 billion annually from 2025-2050, as estimated by the World Bank.

9. Despite such promising proposals, recent meetings of the International Maritime Organisation (IMO) did not yield a consensus on a carbon levy. In contrast, the European Union (EU) has advanced by instituting an emissions permit system for ships starting in 2024, covering both intra-bloc and inter-bloc travel.

10. The UK has a crucial opportunity to address shipping emissions through taxation, which would encourage decarbonisation from the industry and raise billions in climate finance to support countries that are hardest hit by climate change.

Recommendation 2: Address unsustainable debts through private creditors legislation

11. International development aid constitutes a fraction of the financial resources that lower-income countries need to tackle the global challenges such as poverty, climate change and conflict. New approaches are needed to effectively finance global challenges, such as deeper debt relief and innovative forms of taxation for climate action. 1.5 billion people reside in countries that rank among the top 25 at risk of debt default. Alarmingly, 93% of nations most susceptible to the climate crisis face significant debt distress or vulnerability.

12. Debt repayments obstruct essential resources from being allocated to climate action and local needs, and perpetuate countries' vulnerability to climate-related disasters and increase inequality.

13. While commendable efforts have been initiated by the UK Government, such as climate resilient debt clauses (CRDCs) that suspend debt repayment

during climate shocks, a comprehensive approach is needed to address the systemic causes of the debt crisis.

14. The current mechanism to tackle the debt crisis, the Common Framework for Debt Treatments, is failing due to the low level of participation of private creditors, who own around 40% of low-income country debt. It will continue to fail unless decisive action on private creditors is taken. The UK is uniquely placed to act to ensure the participation of private creditors, because 90% of bonds issued by countries eligible for the Common Framework are governed by English law.

15. By replicating the Debt Relief (Developing Countries) Act 2010, the UK can stipulate that creditors cannot sue for more than they would have got if they had taken part in the Common Framework for debt restructuring, or any other internationally agreed debt restructuring the UK government is party to.

16. Another avenue is to extend existing corporate debt restructuring laws so that governments can restructure their debts in a similar way to companies.

17. Within the proposed legislation there should be the provision of a debt moratorium when a country has applied for debt restructuring. During negotiations, the borrowing nation should be exempted from servicing debt repayments, to facilitate more effective discussions.

18. As a first step the Treasury, alongside the FCDO, should consult widely on the most appropriate mechanisms, with the view to enacting legislation as soon as possible.