

## **WRITTEN EVIDENCE SUBMITTED TO**

### **HM Treasury: Autumn Budget and Spending Review 2021**

#### **BY THE CATHOLIC AGENCY FOR OVERSEAS DEVELOPMENT (CAFOD)**

**September 2021**

#### **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.

#### **The ambition: Leading the transition to net zero and advancing "Global Britain"**

2. In his speech at UNGA, the Prime Minister was right to point out that COP26 is "the turning point for humanity".<sup>i</sup> As the AR6 IPCC report stated, possible climate futures could entail global temperatures exceeding 2°C and the increasing frequency and intensity of climate extreme events.<sup>ii</sup> Therefore, it is critical that the UK Government pulls out all the stops to work with other governments, business and civil society to ensure COP26 delivers on keeping temperature rises to 1.5C, guaranteeing that lower income countries have access to the finance needed to respond to the climate crisis, and consigning coal to history.
3. We welcome the UK Government's work in mobilising countries to pledge to phasing out coal and calling on developed countries to deliver the \$100 billion for climate finance<sup>iii</sup>. However, CAFOD is concerned that the UK's current commitments will fall short of what is needed - of the role the UK needs to play both domestically and internationally. Climate vulnerable countries are already feeling the effects of the climate crisis. Therefore, the Chancellor must frontload the UK's international climate finance (ICF) commitments to respond to the reality of vulnerable communities. This is also important if the Chancellor wants to fulfil his stated priority of leading the transition to net zero globally.<sup>iv</sup> It is regrettable that the Chancellor has made the decision to temporarily reduce the aid budget to 0.5% of GNI, especially within the context of a global pandemic which threatens to push over 100 million people into extreme poverty this year.<sup>v</sup>
4. To prevent further people falling into poverty, CAFOD stresses that existing UK aid programmes should not be affected because of the Government's ICF commitments. The UK government needs to find a way to meet both the ICF commitments - and frontload them - as well as maintaining crucial aid programmes. This is where Special Drawing Rights can provide the much-needed opportunities for additional climate finance at this crucial time.
5. There is a historic opportunity for the Chancellor to provide financial support to lower income countries, whose economies have been hampered by COVID-19, by utilising

its Special Drawing Rights (SDR) allocations. Global south economic recovery is critical for the future of Global Britain. As reported by the IMF, bringing the pandemic to a faster end could “inject the equivalent of \$9 trillion into the global economy by 2025 due to a faster resumption of economic activity”.<sup>vi</sup> Therefore, the UK must utilise its SDR allocations to support global economic recovery from COVID-19 and to mitigate against future economic damage as a result of the climate crisis.

6. Ahead of the Spending Review and Autumn Budget, we highlight the following three recommendations to tackle climate change and respond to the Covid pandemic that will respond to the scale of the challenges both in the UK and globally:
7. **Recommendation 1:** The UK Government must ensure that aid committed through ICF is prioritised at the start of the 2021-26 spending commitment. This would help enable climate vulnerable communities respond to the reality they already face, to develop resilience for the future and tackle climate change.
8. **Recommendation 2:** The aid allocated through ICF for climate adaptation and mitigation programmes for 2021-26 must not be at the expense of existing or planned aid programmes. The UK government needs to meet its climate finance commitments and maintain the rest of its development and humanitarian programmes.
9. **Recommendation 3:** The UK Government must utilise the boost to its reserves from Special Drawing Rights to make large grant contributions to tackle Covid and climate crisis via global initiatives such as COVAX and the UN’s Green Climate Fund.

### **Frontloading climate finance commitments**

10. The UK Government has made a commitment to support lower income countries in responding to the effects of climate change through International Climate Finance (ICF)<sup>vii</sup>, and announced increased funding for ICF over the next five years to £11.6 billion. However, the ability to meet this commitment has been thrown into question, given the reduction in ODA spending to 0.5% of GNI. We are also yet to see an implementation strategy from the Government on how it will spend on climate finance, despite the Government stating that it would deliver this in the near future.<sup>viii</sup>
11. The Government has said it intends to spend 50% of its climate finance on climate change adaptation. However, the climate crisis is already a matter of life and death for people in the communities CAFOD works with. Droughts, floods, failed harvests and damage to our common home is destroying people’s lives and livelihoods and pushing more people into poverty.
12. For example, South Sudan is vulnerable to climate extremes and prone to drought and flooding, which poses a threat to agricultural communities. CAFOD has been supporting local partners in South Sudan to mitigate the risk of climate extremes by introducing climate resilient, sustainable farming practices that are adaptable to climatic variances.

13. Support through UK Aid Match (UKAM) was going to deepen this work and expand it to more communities, however UKAM II Round 4 Applications have received notification that there will be a delay in signing of contracts until April 2022. This has delayed project start dates and funding until April 2022, meaning as things stand, farmers will miss the critical farming season which starts in May 2022 for them to be able to acquire seeds to produce their own food.
14. In this case, UKAM funds would have supported thousands of people, farmers and their families, who have already lost their food productive capacity to floods and conflict, to acquire seeds and tools to rebuild their lives and produce their own food. It was expected that farmers could engage in climate resilient, agroecological farming practices from May 2022. Instead, they may be unable to harvest anything in 2022 and will have to rely on food relief assistance, which is already overstretched. Many areas of South Sudan are facing crisis and above levels of food insecurity, with some areas being projected to face "famine likely" conditions<sup>x</sup> – delays to UKAM funding means delays to interventions to support communities facing such critical challenges.
15. Therefore, the Chancellor must make a commitment to frontload ICF commitments so that climate vulnerable countries can start to access finance for urgent mitigation and mobilise resources for adaptation. The delay to UKAM funding also shows how programmes are being affected, despite being aligned to the Government's goal of tackling the threat of climate change.<sup>x</sup> As the Government seeks to meet its additional commitments to financing climate adaptation and mitigation programmes, it must ensure that this does not come at the detriment of existing programmes.
16. **Recommendation 1:** The UK Government must ensure that aid committed through ICF is prioritised at the start of the 2021-26 spending commitment. This would help enable climate vulnerable communities respond to the reality they already face, to develop resilience for the future and tackle climate change.
17. **Recommendation 2:** The aid allocated through ICF for climate adaptation and mitigation programmes for 2021-26 must not be at the expense of existing or planned aid programmes. The UK government needs to meet its climate finance commitments and maintain the rest of its development and humanitarian programmes.

### **Utilising Special Drawing Rights**

18. Special Drawing Rights (SDRs) provide a historic opportunity for the UK to support low-income countries in their recovery from COVID-19 as well as to mitigate against the effects of the climate crisis. The UK pushed for the creation of SDRs in early 2021, in which around \$380 billion of the new SDRs will go to high-income countries. In comparison only around \$33 billion will go to countries in Africa.
19. The UK will receive circa \$27 billion worth of SDRs, and the Chancellor has committed to exploring how the Government could use their SDRs to support low-income countries. CAFOD urges the Government to use the SDR boost improve global vaccine access and support developing countries capacity to mitigate and adapt to climate change.

20. For developing countries to address the social and economic impacts of COVID-19 and the climate crisis, the UK's contributions (which could catalyse matching donations from other G7 countries) the new SDRs must be used to primarily facilitate grants, not loans, to avoid further exacerbating the debt crisis many countries are experiencing.
21. CAFOD has explored the options available to the Government to utilise the boost to its national reserves from the influx of \$27 billion worth of SDRs to make grant contributions to existing multilateral initiatives such as COVAX and UN's Green Climate Fund.<sup>xi</sup> This monetary donation would be made direct from the UK's budget and in many senses would be costless as it would not have taken place without the new SDRs and would not add to government debt. If the Treasury wanted to sell a portion of its foreign currency reserves to cover the donation it would be able to do this – a measure that is consistent with the Exchange Equalisation Act 1979. This donation would count as ODA but would be scored above the existing aid ceiling as it was made possible from the new SDR resources.
22. Therefore, in this Autumn Budget and Spending Review, the Chancellor must outline his plans on how he will use the boost to the UK's reserves to make grant contributions to mechanisms such as COVAX and the Green Climate Fund.
23. **Recommendation 3:** The UK Government must utilise the boost to its reserves from Special Drawing Rights to make large grant contributions to tackle Covid and climate crisis via global initiatives such as COVAX and the UN's Green Climate Fund.

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<sup>i</sup> Prime Minister Boris Johnson, 2021. PM speech at the UN General Assembly: 22 September 2021. <https://www.gov.uk/government/speeches/pm-speech-at-the-un-general-assembly-22-september-2021>

<sup>ii</sup> Intergovernmental Panel on Climate Change, 2021. Headline Statements from the Summary for Policymakers.

[https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC\\_AR6\\_WGI\\_Headline\\_Statements.pdf](https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Headline_Statements.pdf)

<sup>iii</sup> Prime Minister Boris Johnson, 2021. PM calls on richest countries to meet \$100 billion climate pledge. <https://www.gov.uk/government/news/pm-calls-on-richest-countries-to-meet-100-billion-climate-pledge>

<sup>iv</sup> Chancellor Rishi Sunak, 2021. Letter to Secretary of States on the Spending Review 2021. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1015748/CX\\_LETTER\\_TO\\_ALL\\_SECRETARIES\\_OF\\_STATE\\_070921.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1015748/CX_LETTER_TO_ALL_SECRETARIES_OF_STATE_070921.pdf)

<sup>v</sup> World Bank, 2020. COVID-19 to Add as Many as 150 Million Extreme Poor by 2021. <https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021>

<sup>vi</sup> IMF, 2021. A Proposal to End the COVID-19 Pandemic. <https://blogs.imf.org/2021/05/21/a-proposal-to-end-the-covid-19-pandemic/>

<sup>vii</sup> UK Government, 2018. Guidance on International Climate Finance. <https://www.gov.uk/guidance/international-climate-finance#history>

<sup>viii</sup> International Development Committee, 2019. HC2589: UK aid for combating climate change: Government Response to the Committee's Eleventh Report.

<sup>ix</sup> Integrated Food Security Phase Classification, 2020. South Sudan: IPC Results October 2020 – July 2021. <http://www.ipcinfo.org/ipcinfo-website/alerts-archive/issue-31/en/>

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<sup>x</sup> UK Government, 2021. Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy. <https://www.gov.uk/government/publications/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy>

<sup>xi</sup> CAFOD, 2021. Using the United Kingdom's SDRs to tackle Covid-19 and climate change. <https://cafod.org.uk/About-us/Policy-and-research/Finance-and-debt/Using-the-UK-s-SDRs>