International Growth Centre (IGC) response to International Development Committee inquiry into climate change, development and COP26

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About IGC

The International Growth Centre (IGC) aims to promote sustainable growth in developing countries by providing demand-led policy advice based on frontier research.

The IGC directs a global network of world-leading researchers and in-country teams in Africa and South Asia and works closely with partner governments to generate high-quality research and policy advice on key growth challenges. Based at LSE and in partnership with the University of Oxford, the IGC is majority funded by the UK Foreign, Commonwealth, and Development Office (FCDO).

We have resident teams of economists based in 11 countries in Africa and South Asia, with very close and senior relationships at the heart of government, making us well placed to understand the challenges posed by economic development and climate change. This response will be examining the third and fourth issues in the terms of reference, namely:

- ***'Issue 3:** The extent to which the Government's work to date on climate change and development has taken the UN Sustainable Development Goals and the needs of low-and-middle income countries and vulnerable groups into account'* and;
- ***'Issue 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.'*

Issue 3 - Aid, climate change and economic development

Over the past few decades, economic growth has lifted billions of people out of poverty. Economic development, defined by a series of structural transformations that increase the productivity of firms and workers, is crucial to increasing the living standards of those in low and lower-middle-income countries. Still in urgent need of this transformation, these countries are now reckoning with the impending effects of climate change, which promises to have more devastating effects on the poorest and most vulnerable. There is no escaping the need in developing countries for energy to generate the growth needed to combat poverty, and so **sustainable economic growth is the only way to address poverty and climate change.**

Sustainable economic growth will require a series of transformations across energy, agriculture, cities and transport, skills, and industry. All of which will promote the structural transformation towards prosperity. However, the challenges are immense. Many of these growth pathways will be new and there is enormous uncertainty, including around the potential for services-led rather than manufacturing-led structural transformation. These new growth challenges require innovative solutions, in technology and in almost every dimension of policy. There are also, however, considerable opportunities. About half of the infrastructure Africa will need by 2050 is yet to be built, and two-thirds of Africa's cities. As was evident first in Africa's adoption of mobile telephony and then in its innovative development of mobile payments, developing countries have the potential to leapfrog old technologies, and have opportunity to do so now with renewable energy and clean public transport. If governments can foster the right enabling environment for innovation, strategic aid can facilitate the investments in research and adoption that will be needed – as DFID did in supporting MPESA, for example.

Previously, aid has contributed to the perception of growth and climate change as zero-sum activities. For developing countries who have mostly played a minority role in the generation of carbon emissions, climate change has not been high on the political agenda. With limited resources, policymakers need to make choices and rightly should prioritise their national political mandates, which are often centred more around economic growth and development. Donor-driven agendas focused on climate change and green growth can often ignore national policy priorities, and so national policymakers see these agendas as contributing to the global mitigation of climate change at the expense of national prosperity. In many instances, this perception is not without merit. Despite the acknowledgement that climate change will hit the poorest the hardest, the distributional consequences of climate change mitigation, adaptation, or green growth, are complex. Further understanding of how these policies may affect the poorest is needed (Hallegatte & Rozenburg, 2017), as they may be detrimental to the poor (Barbier, 2016), or need accompanying social protection policies (World Bank, 2015).

For development partners and aid, adopting strong conditionality or priorities to their assistance can lead to adverse outcomes. This is evidenced by two years of participatory policymaker engagement undertaken by our Cities that Work initiative for the 'Supporting the urban dimension of development cooperation' programme (Delbridge et. al, 2021). Feedback from city and national policymakers in Malawi, Senegal, Somaliland, and Uganda claimed the influence of development partners affected which projects received funding and disrupted the normal process of project prioritisation. This can lead to an erosion of national governance structures and inhibit the ability of national policymakers to deliver on their core mandate. This distinction was also identified from consultations across the IGC country network, which identified mismatches between government priorities and donor-agendas, particularly regarding global mitigation policies (Asare, 2021). Other research has suggested that aid allocation for the poorest countries should be focused on poverty alleviation first and only selectively pay attention to climate change, with the acknowledgement that global mitigation of climate change should not be a responsibility for low-income countries (Dercon, 2014). **We believe the two should be combined; the energy and economic transformation needed to support poverty alleviation in poorer countries should be designed on a trajectory that leads to a low-carbon, sustainable future.**

Issue 4 - Opportunities for COP26 and beyond

The IGC believes that a more demand-led and collaborative approach will be needed to effectively address poverty reduction and climate change through aid. COP26 offers a great opportunity to build this participatory discussion on the policy priorities that matter for developing countries, using a bottom-up approach where national buy-in is secured from the outset, avoiding large trade-offs or the imposition of donor priorities. With COP27 being hosted in an African country, now is the time to build this approach to start developing accountability for both donors and policymakers.

Using its expertise and partnership with national governments, **the IGC has used this approach to co-generate solutions and work effectively with national policymakers** across the developing world:

- In partnership with the Bihar energy department in India, the IGC designed and tested an intervention that tied the supply of power more closely to payments, in order to incentivize more consumers to pay and increase revenue. It was successful in generating higher revenues and has led to similar collaborations in other countries.

- In Gujarat, the IGC worked with State Pollution Control Board to test the impact of a shift to third party emissions auditing. The change in regulatory approach greatly increased the accuracy of reporting and led to the largest firms reducing their emissions.
- The IGC brought together researchers and the Sudanese transitional government in 2020 to provide advice on the removal of fossil fuel subsidies. These recommendations were successfully adopted and are expected to boost annual government revenues by $3.5bn while supporting a shift to more sustainable energy sources.
- Through its State Fragility Initiative, the IGC has convened a council of eminent experts, including academics and high-level policymakers, which issued a call to action to increase renewable energy investments in fragile states earlier this year. The call, in partnership with the g7+ group, has been signed by 15 current or former heads of state as well as major global institutions.

These examples show that matching policy priorities with frontier research through co-generation between researchers and policymakers can lead to innovative solutions. It is imperative that from the outset there remains a keen focus on how policies can promote inclusive and sustainable economic growth. Further research, innovation, and collaboration will be needed to identify the policy challenges where adaptation or mitigation of climate change can be incorporated into existing policy priorities, to ensure they remain demand-driven and address poverty alleviation. Across our four research themes, following consultation with our country network, **the IGC has identified some areas where there is potential to develop sustainable and inclusive growth.**

Energy is central to economic development and climate change. Access to reliable energy is essential for firms and households to grow. However, shifting the energy mix to renewable sources will be critical if that growth is to be sustainable. There will be short-term benefits, too, as the air pollution associated with energy from fossil fuels is extremely damaging to human health and a problem particularly acute in developing countries. In turn, this health impact drags on human capital and the potential for growth, making it more difficult to address poverty.

Rapid urbanisation, growth, and geography place **cities** as centres of extreme vulnerability to climate change as well as areas to drive prosperity. On top of the problems of air pollution, it is crucial for cities to understand the impending cost of climate change, to plan appropriately and adapt. Scarce resources mean there must be effective planning, prioritisation, and knowledge of potential policy interventions. By focusing on mitigating local climate consequences, cities can produce low-carbon growth which have positive spillovers for global mitigation.

As the agents of production, innovation and employment, **firms** play an important role in climate change and poverty alleviation. Agriculture, which accounts for a large share of income and employment in developing countries, is particularly vulnerable to changes in weather patterns and will force farmers to adapt. Adaptation through technological adoption can increase both productivity and resilience, creating the conditions that together with industrial policy can help foster a less energy-intensive structural transformation. Developing countries will need to integrate themselves into global and regional value chains for growth, requiring the development of green industries and sustainable trade and transport linkages.

Underpinning and guiding all these efforts will be the **state**. Governments and public institutions will need to organise and engage themselves with these challenges, taking the lead on coordinating, governing, and enforcing change. Governments need to implement the social assistance and insurance that will protect those who are most vulnerable to both poverty and climate change, often the same individuals.

Fiscal policy, through the removal of fossil fuel subsidies or environmental taxation, has the potential to address climate change whilst generating the financial resources needed to fund economic development.

Across all these themes, more research is needed to better understand potential policy interventions and build the knowledge that will support effective decision-making. Co-generation between policymakers and researchers is the most effective way to develop innovative policy that targets national priorities. Donors and aid can play a crucial role in helping to support this process, by delivering much-needed resources that will allow developing countries to overcome the challenges and take advantage of the opportunities. Using COP26, the international community must invigorate a participatory discussion to build a more equitable and inclusive approach to climate change decision-making. **Only though innovation and local ownership can developing countries be set on a pathway towards sustainable economic development.**

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