

NGO FOREST COALITION SUBMISSION

UK INTERNATIONAL CLIMATE FINANCE (ICF) INQUIRY 2026-2030

International Development Committee

Statement from the Global Alliance of Territorial Communities (GATC) representing Indigenous and local communities globally

We welcome the opportunity to contribute to the UK government's consultation. Support reaching some of our communities has shown that well-designed, locally grounded funding can effectively protect forests and sustain livelihoods.

However, we are concerned about the UK's planned cuts to climate finance for poorer countries, reducing support from £11.6bn to £6.7. This weakens the consistency of ODA for forests and undermines long-term, Indigenous and community-led solutions. Funding should be more predictable and better aligned with Indigenous rights and knowledge.

At a time of accelerating biodiversity loss and ecosystem collapse, this is also a matter of national security. DEFRA's recent report highlights high-risk ecosystems including the Amazon and Congo rainforests, boreal forests, the Himalayas, and Southeast Asia's coral reefs and mangroves, making sustained support for Indigenous stewardship essential (16).

We recognise that fiscal sponsors can play an important and often enabling role, for example, by helping Indigenous Peoples' organisations access funding and providing essential logistical support they might not otherwise have. However, there is variation in how these models are implemented. In some cases, a significant share of funds is retained at the intermediary level, with increased allocation to staffing and management. Strengthening capacity support for Indigenous Peoples' organisations would help ensure they are able to absorb and manage a greater proportion of funding directly. Alongside this, clear indicators should be used to track how much funding flows through fiscal sponsors versus what is managed by Indigenous organisations themselves, with this transparency reflected in final financial reporting.

1. How are the UK's ICF programmes selected and, are they effective in meeting the long-term needs and priorities of low-income and climate-vulnerable countries?

Coalition Member Contributions

UK ICF programme selection is largely shaped through departmental priorities and intermediary delivery mechanisms. While strategically aligned with climate objectives, delivery often relies on multilayered funding channels that distance finance from frontline forest communities. In practice, this often includes multilateral funding structures, where significant human resource and overhead costs are consolidated within large international institutions (e.g. multilateral development banks and UN agencies), with a substantial proportion of funding retained outside forest countries. While these mechanisms have supported important aspects of the global forest movement, they can be more expensive to implement and less efficient in delivering finance to the forest floor compared to more direct models.

Evidence indicates that Indigenous Peoples and local communities (IPs and LCs) are among the most effective stewards of tropical forests (3, 5, 7), yet remain underfunded relative to their role in climate mitigation. Direct financing approaches have been shown to be both more efficient and more effective in supporting these communities, by reducing overheads and increasing the proportion of funding that reaches frontline actors.

The UK Government has indicated constraints around providing direct funding to forest communities, including concerns related to financial risk and Freedom of Information obligations. However, financial and reputational risks also exist within multilateral institutions and their investment practices. At a minimum, there is a strong case for the UK to increase direct support to the organisations that are already delivering finance to communities on the ground, ensuring that their operational costs, staffing, and systems are adequately funded. This would enable philanthropic and other funding streams to focus more fully on delivering direct payments to communities.

The Environmental Audit Committee's 2024 Inquiry on Sustainable Timber and Global Deforestation (22) concluded that Indigenous peoples and local communities (IPs and LCs) are vital protectors of forests: "but they themselves are victims of the negative effects of deforestation activity, which can include violence and deprivation of livelihoods". Ensuring the full and meaningful participation of IPLCs in negotiations to address deforestation activity is therefore crucial, including in ICF decision-making. Security of tenure rights for IPLCs is essential to measures to address deforestation. The inquiry found "UK Government can make a significant contribution to ensuring security of tenure" and recommended "that the Foreign, Commonwealth and Development Office continue to address measures to improve tenure rights through its development programming. Ministers must ensure that IPLCs are supported in the protection and restoration of forests: one means of achieving this objective is by promoting the inclusion of IPLC representatives in all relevant global and national negotiations."

We strongly support the UK's then-world-leading commitment to allocate £3bn of the £11.6bn within ICF3 to nature. This commitment, which has inspired other donor countries, has been central to the effectiveness and impact of ICF3 in addressing not only the climate crisis, but biodiversity loss and sustainable development. We believe the severe cuts recently made to

ICF4 will affect the UK's international standing, make the UK less safe and have a disproportionate impact on IPs and LCs, and therefore should be reversed.

2. What impacts will the reduction of Official Development Assistance have on the UK's ability to deliver its ICF commitments?

Coalition Member Contributions

Reductions in ODA risk:

- reduced additionality of climate finance
- increased reclassification of existing aid as ICF
- concentration of funding in large intermediary programmes

This may weaken the effectiveness of climate finance in reaching forest frontlines where deforestation pressures are highest (11).

3. How transparent is the UK Government about its ICF commitments?

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The UK's transparency around its ICF commitments remains too limited and this affects the predictability of disbursements and spending, with negative knock-on effects for partners on the ground and long-term planning. For example, although the current commitment ends in March 2026, the UK has yet to publish plans for the next five years and has offered few meaningful opportunities for consultation with civil society and delivery partners. Cuts to the Forest Governance Markets and Climate (FGMC2) and the Congo Basin Forest Action (CBFA) programmes in particular have negatively impacted key development partners in forest-rich countries, after years of delay in approving these grant facilities. These aid cuts amplify worldwide aid cuts (23) and risk creating a governance vacuum that will increase security and trade risks. Furthermore these cuts have impacted civil society - there are numerous reports that in this governance vacuum (enabled by reductions in fiscal support), civic space decreases (USAID example (24)).

The next ICF round should be accompanied by a significant improvement in transparent decision-making, results-tracking and accountability, in order to generate and to enable greater accountability to UK taxpayers, who want to see government action on climate and nature. In addition, the methodology used to measure ICF4 should reverse the accounting changes made to ICF3 by the last

Government to ensure that the public can have confidence that finance dedicated to “climate and nature” will deliver climate and nature outcomes, along with the development potential they bring.

Improvements could be made in:

- Transparency of reporting systems
- Accessibility of financial data
- Accountability mechanisms
- Long term commitments so that IPs, LCs, CSOs and other actors can plan interventions properly

While UK ICF is relatively transparent compared to global peers, gaps remain in:

- visibility of final recipients
- reporting of administrative vs direct spend

There is no standardised metric tracking, particularly on the proportion of funds directly reaching IPs and LCs. We would like to see a target for the proportion of ICF4 going directly to Indigenous Peoples and local communities, and annual, publicly-available reporting on this metric, which the UK could do as part of the Forest Tenure Funders Group.

4. How effectively are FCDO, DESNZ, DSIT and Defra coordinating their efforts to deliver the UK’s ICF commitment and maximise value for money?

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Effective coordination across Foreign, Commonwealth & Development Office, Department for Energy Security and Net Zero, Department for Science, Innovation and Technology and Department for Environment, Food & Rural Affairs is essential to delivering the UK’s International Climate Finance (ICF) commitments and maximising value for money. However, this coordination must be understood within a broader whole-of-government approach. In particular, the role of HM Treasury is critical and should be explicitly considered, given its influence over financial regulation, fiscal policy and the wider economic framework within which ICF operates.

Current evidence suggests that nature-positive public finance is significantly outweighed by harmful financial flows. Research by the United Nations Environment Programme with Global Canopy finds that globally, harmful investments outpace nature protection by 30 to 1. This undermines the effectiveness and value for money of ICF spending. Complementary action to address these harmful flows is therefore essential if ICF is to achieve its intended outcomes.

In this context, Global Witness has found that banks in the US, EU and UK have generated over \$10 billion in income since the Paris Agreement by financing companies publicly accused of deforestation. Barclays alone made \$1.7 billion from financing the world's largest meat company JBS, while it was proven to be buying cattle from suppliers illegally invading indigenous lands in the Amazon (17). It is estimated for every £10 the average Briton puts into their pension, £2 is linked to deforestation (18). These are three examples among many. This highlights the extent to which UK-linked financial activity continues to drive environmental harm, counteracting the objectives of ICF.

Both the Global Resource Initiative Taskforce and the Environmental Audit Committee have recommended stronger regulatory measures, including the implementation of Schedule 17 of the Environment Act 2021, to prohibit the use of commodities such as beef, soy and palm oil produced on illegally deforested land (19,20). Progress in this area is essential to ensure policy coherence and maximise the impact of public finance.

The UK has also committed, under the Global Biodiversity Framework, to align financial flows with nature-positive outcomes by 2030. Delivering on this commitment is central to the UK's ambition to become a global leader in green finance.

Finally, biodiversity loss poses a material economic risk to the UK. According to the University of Oxford and Green Finance Institute, around half of the UK's biodiversity-related financial risk is linked to overseas activities, and nature loss associated with deforestation could reduce UK GDP by up to 12 percent – exceeding the impacts of the global financial crisis or COVID-19 (21).

Taken together, this suggests that while cross-departmental coordination on ICF is necessary, it is not sufficient. Maximising value for money requires stronger alignment between ICF and wider financial, regulatory and economic policy, led in part by HM Treasury, to ensure that public investment is not undermined by larger harmful flows.

5. How has the UK's 2026-2030 ICF commitment been decided? Is it adequate to comply with the obligations of the Paris Climate Agreement and support its objectives?

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Adequacy cannot be measured solely by volume but must reflect:

- alignment with mitigation potential of forests (2)
- protection of irrecoverable carbon stocks (5)
- equitable distribution to frontline stewards

6. What lessons should the UK Government learn from the delivery of ICF between 2021–22 and 2025–26, including the effectiveness of multi-year commitments?

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Key lessons include:

- intermediated systems reduce efficiency
- market-based mechanisms often fail to deliver equitable benefits
- local participation remains insufficiently empowered
- funding cycles are often misaligned with ecological timelines

7. Is the UK using the right and most effective financial instruments to deliver ICF?

Coalition Member Contributions

Current International Climate Finance (ICF) delivery models rely heavily on intermediary-led, programme-based approaches. These are often complex, costly, and can limit the proportion of funding that reaches frontline forest communities. This raises important questions about whether the UK is using the most effective financial instruments to deliver climate outcomes.

A key structural issue is that current approaches are:

- programme-based rather than place-based
- intermediary-heavy rather than community-directed
- input-focused rather than outcome-focused at forest level

This results in high administrative complexity and reduced efficiency in delivering finance to the forest floor.

By contrast, Indigenous Peoples and local communities (IPs and LCs) who protect tropical forests globally are increasingly calling for a shift towards direct, flexible finance models, with fewer intermediaries and greater autonomy, because these approaches are better aligned with delivering rapid, cost-effective forest protection under constrained budgets.

Cost-effectiveness of direct climate finance

Evidence from long-term community forest partnerships shows that:

- unconditional direct finance to Indigenous Peoples and local communities delivers extremely high impact per pound spent

- it reduces transaction costs by minimising intermediary layers
- it increases the proportion of funds reaching frontline actors
- it strengthens territorial governance and long-term forest protection outcomes

Research shows Indigenous territories are among the most effective forest protection systems globally (7), storing a significant share of irrecoverable carbon (5). Yet current climate finance systems channel only a small fraction of resources directly to them (11).

Evidence from Cool Earth's direct finance model

Cool Earth has over 20 years' experience delivering direct, unconditional finance to Indigenous Peoples and local communities.

Across programmes:

- 103,000 people supported
- 88 community territories
- 1,139,593 hectares protected
- ~522 million tonnes of carbon stocks safeguarded
- £33 million transferred directly to communities

Funds are delivered with minimal intermediaries and governed through existing Indigenous and community governance systems, which are already strong, functional, and legitimate.

Core finding: IP and LC capacity and cost-effectiveness

Current ICF design often underestimates Indigenous and local community (IP and LC) capacity.

In practice, many communities:

- already have established governance and decision-making systems
- demonstrate strong financial literacy in managing household and communal resources
- effectively govern land, forests, and shared assets

This means IPLCs are significantly more capable of managing direct finance than current ICF models assume.

Value for money and outcomes

Direct finance significantly improves value for money by:

- removing intermediary and consultancy layers
- reducing administrative overheads
- increasing the proportion of funds reaching communities
- enabling flexible, locally defined spending decisions

An example of reduced transaction costs comes from Liberia, where Integrated Development and Learning (IDL)'s Payment for Stewardship programme delivers direct area-based payments to communities who protect their forest, backed by support for livelihood enhancement and better community governance. In this programme, 50% of the budget reaches communities in cash, and 20% in creating income-generating opportunities. This is a radical departure from typical forest projects where under 10% is spent locally.

Climate and forest protection outcomes

Cool Earth's model is based on unconditional, trust-based transfers. Communities use funds to:

- strengthen territorial governance
- invest in livelihoods (agroforestry, food systems, fisheries)
- improve education, health, and resilience
- protect forests and water systems
- reduce reliance on illegal or extractive activities

Evidence from long-term programmes shows:

- consistently low deforestation rates over time (6)
- increased capacity to resist illegal logging and mining
- no observed increase in deforestation linked to cash transfers

Conclusion

Cool Earth evidence shows that direct, unconditional finance to Indigenous Peoples and local communities is one of the most cost-effective climate interventions available. It:

- maximises funds reaching frontline actors
- reduces administrative inefficiency
- strengthens local governance systems
- delivers sustained forest protection outcomes
- improves resilience in climate-vulnerable regions

Recommendation

We are looking for greater political support for indigenous-led initiatives such as the Global Alliance of Territorial Communities Shandia mechanism, the Mesoamerican Alliance of Peoples and Forests' Fondo Territorial Mesoamericano and Coordination of the Indigenous Organizations of the Brazilian Amazon's Podáali fund in Brazil, as well as significantly more direct support to regional, national and local IP and LC organisations. This would involve a combination of both project funding and, crucially, core funding for organisational development and staff training.

Second, we would like to see an expanded definition of “acceptable risk,” that strikes a better balance between fiduciary requirements and the potential to achieve real impact on the ground, while improving mechanisms for dealing with problems when they arise.

A commitment to a target % of ICF funding going to direct finance for IP and LC would be in line with positive announcements made at COP30: the Forest Tenure Funders Group pledge of USD 1.8 billion to advance IP and LC tenure rights and the Forests and Climate Leaders Partnership (FCLP) Intergovernmental Land Tenure Commitment to secure 160 million hectares of IP and LC lands by 2030.

8. Is the UK’s use of loans, that represented more than two-thirds of the global ICF commitment in 2022, appropriate and, what is its impact on low-income and climate-vulnerable countries?

Coalition Member Contributions

The increasing use of loans in climate finance risks:

- increasing debt burdens in climate-vulnerable countries
- reducing fiscal space for adaptation
- shifting finance toward revenue-generating mitigation sectors

Debt-based instruments are often poorly suited to forest protection, where benefits are global, non-revenue generating, and ecological.

Alternative mechanisms such as:

- debt relief linked to climate outcomes
- grants
- direct community transfers

offer more effective and equitable pathways.

9. How should the UK’s ICF be spread between mitigation, adaptation and loss and damage spend to respond to climate change most efficiently?

Coalition Member Contributions

In tropical forest systems, mitigation, adaptation, and loss & damage are inherently interconnected.

Protecting forests:

- mitigates emissions
- stabilises rainfall and climate systems (adaptation)
- prevents ecosystem collapse and livelihood loss (loss & damage avoidance)

Therefore, efficiency is maximised when finance prioritises **integrated forest protection systems led by Indigenous Peoples and local communities** (3, 5, 7).

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