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Climate challenge and financing: Catalyzing and coordinating financing for climate friendly investment and development

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Igor Paunovic

Senior Economist and Chief of the Climate and Development Strategy Unit

Division on Globalization and Development Strategy, UNCTAD

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How can developing countries balance climate and development objectives?

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Balancing climate and development objectives

- We must put a climate change lens on everything we do now. The issue is how!
- Securing prosperity and decent jobs while delivering climate goals - **just transition** – is the crux of the climate and development challenge.
- Just Transitions - context-specific - every country and region has specific economic, social, and environmental conditions.
- But common challenges facing developing countries: basically, the Paris Agreement means of implementation - finance, technology and capacity-building.
- Overcoming these challenges depends on:
  - Governments' ability to deploy just transition-aligned developmental strategies that can tune the achievement of all climate goals to improved social and economic outcomes.
  - Global cooperation to foster enabling conditions: accelerating mitigation in developed countries, sharing green technologies, coordinating expansionary fiscal and monetary policies to deliver needed investment (TDR 2021).

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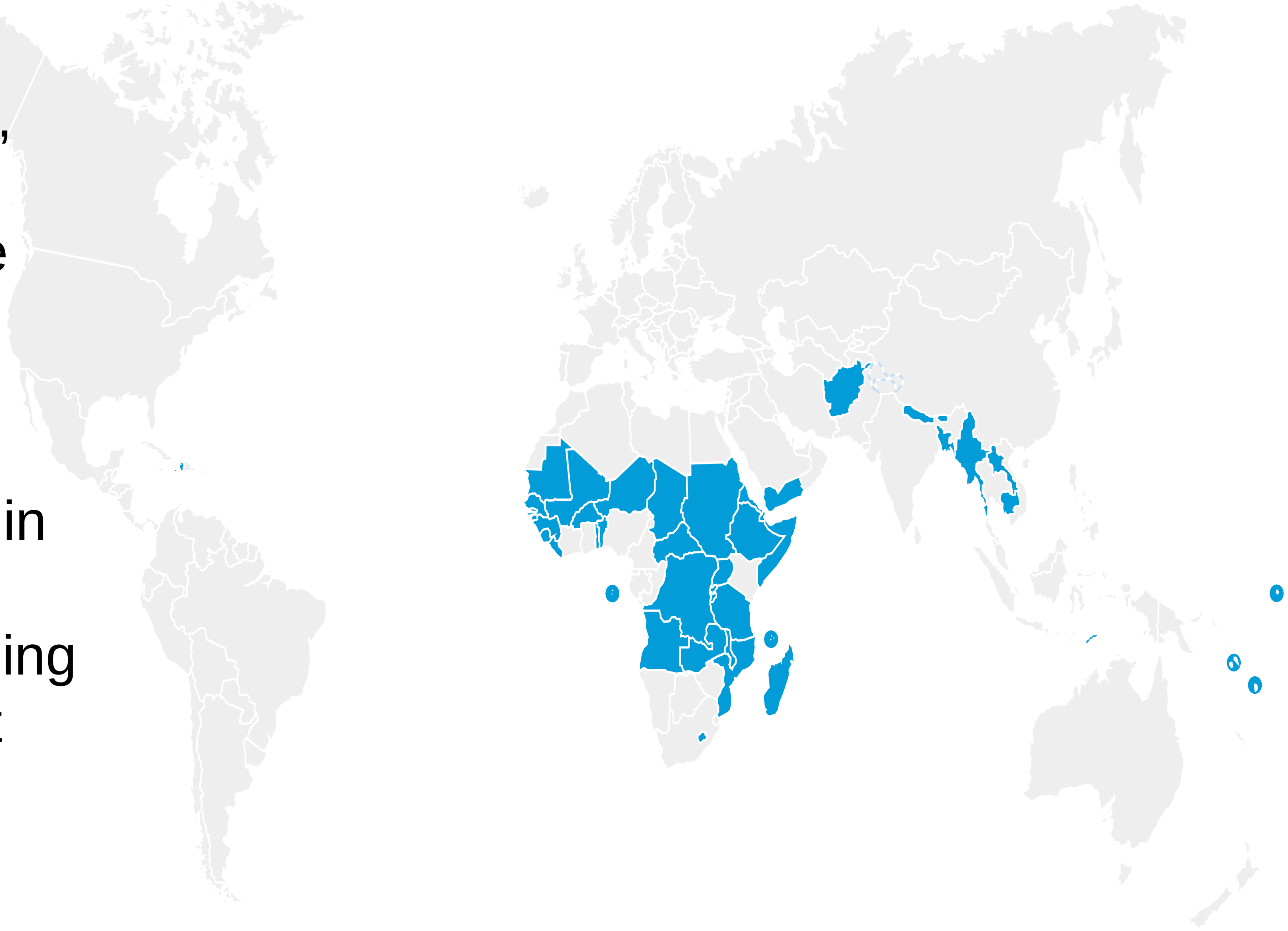
Balancing climate and development hinges on balancing national and international

- LDCs: 14% of the global population, but around 1% of carbon emissions; in per capita, only <u>10% of the world average</u>
- **The paradox**: least responsible for climate change, but most vulnerable to it: in the last 50 years, 69% of climate-related deaths in the world have been in LDCs
- The same true of other developing countries, but to a lesser extent



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Climate (in)justice

- In 2021, an average American emitted 11 times more energy-related CO_2 than the average African
- Top 1% of emitters globally each had carbon footprints more than **1000 times** greater than those of the bottom 1%!
- The top 10% of emitters in the world (800 million people) responsible for **50%** of global energy-related CO_2 emissions
- In contrast, the bottom 10% is responsible for only **0.2%** of emissions. Many of them lack access to electricity (energy poverty)
- The principle of **Common But Differentiated Responsibility and Respective Capabilities** cannot be left aside when discussing climate and development

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How can member countries enhance their access to climate finance?

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How to enhance access to climate finance?

- Are we **asking the right question?** Instead of asking how developing countries can access a grossly inadequate pot of resource, we need to ask **how global economic governance needs to change to scale resources and better facilitate access**.
- Projected costs for less than half of developing countries' Nationally Determined Contributions (NDCs) amount to $5.8 trillion up to 2030 (UNFCCC, 2021).
- Only $83.3 billion was provided and mobilized by developed countries in 2020.
- Moreover, some with dubious accounting practices (taken from existing aid budgets, primarily allocated to development projects such as health and education, etc.)
- In addition, most of it in form of loans (many at commercial rates) instead of grants; also, only 1/3 is for adaptation, while 2/3 for mitigation
- The real additional resources are between $21 and $24 billion, according to Oxfam

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Domestic resource mobilization

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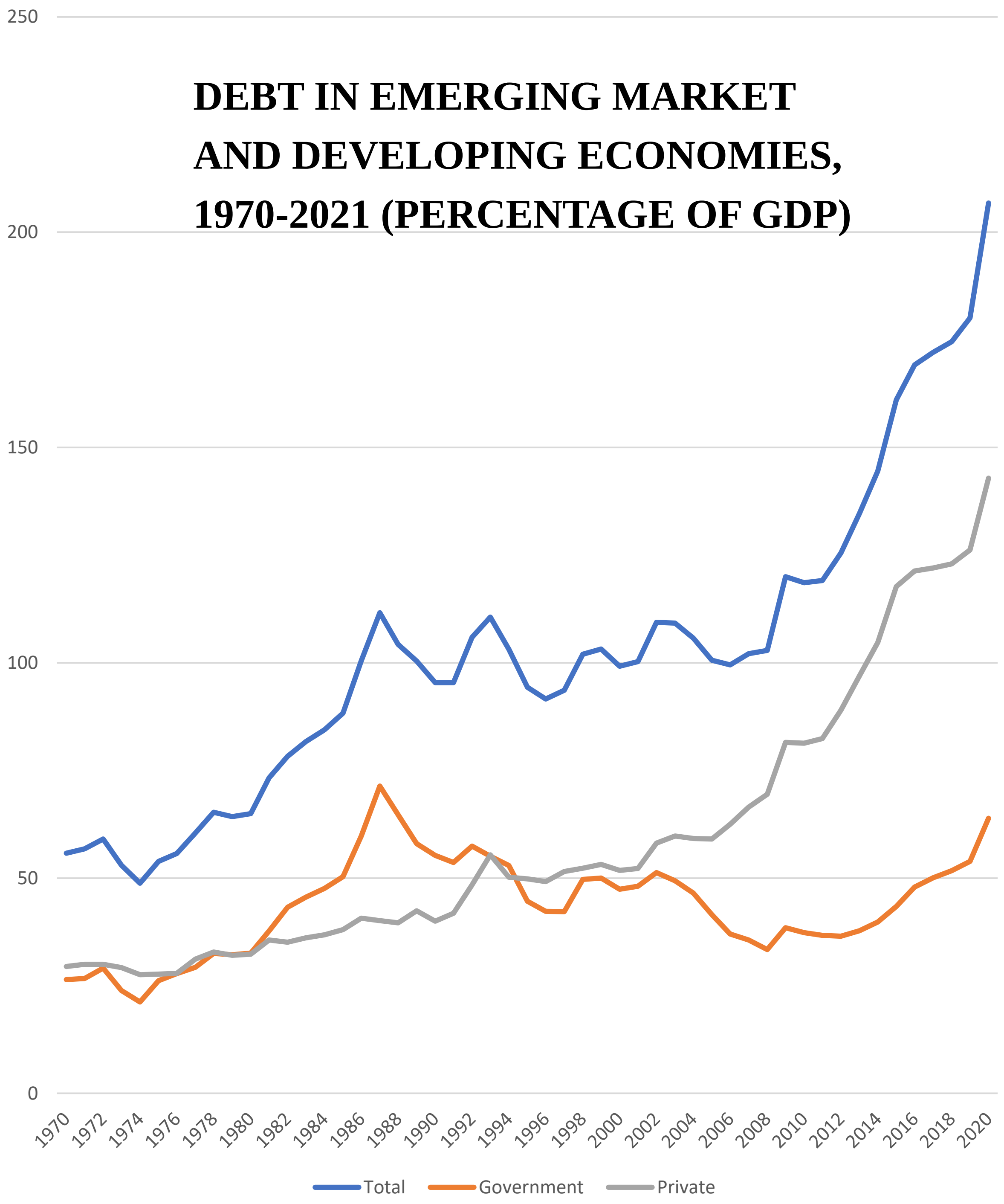
Domestic resources? Indebtedness is high!

- Indebtedness in developing countries surpassed 200% of GDP
- Both public and private sectors increased their indebtedness, but the private much more!
- Debt-climate nexus: SIDS are exposed the most to climate impacts but spend **20 times more** on debt servicing than they do on climate finance!



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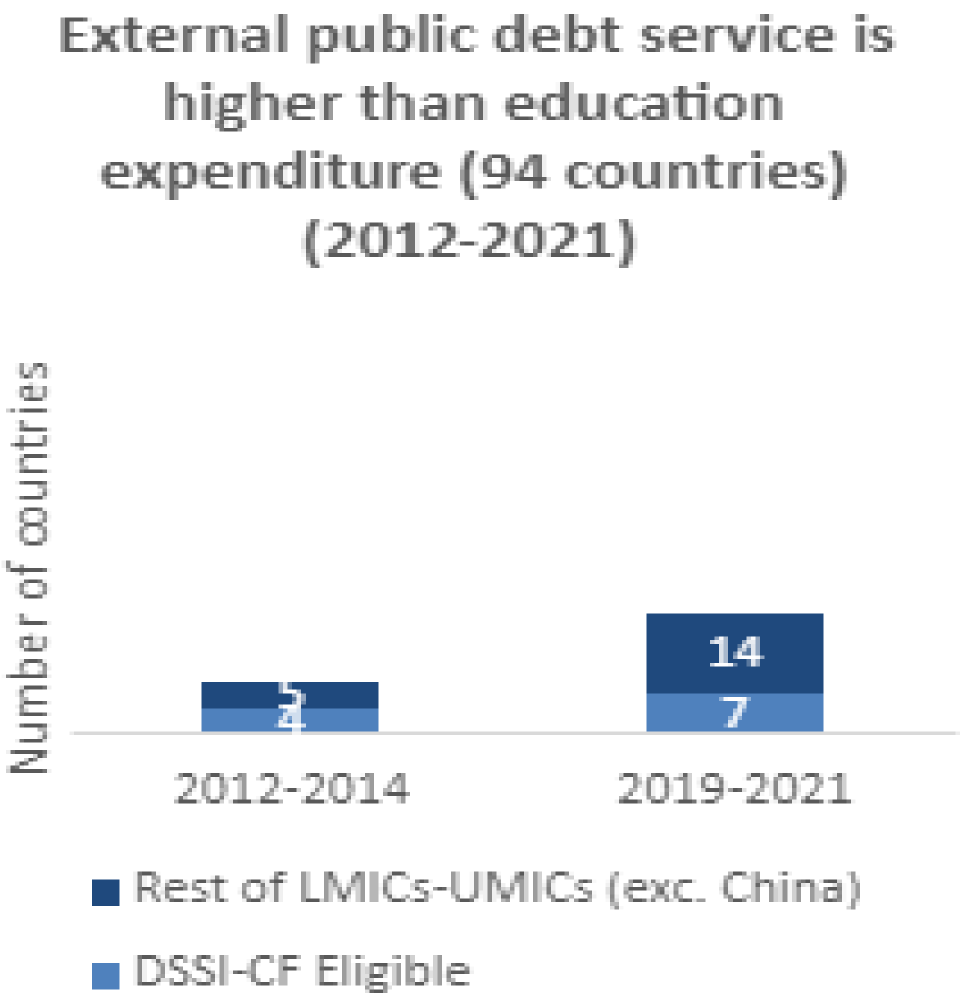
Domestic resources? - a looming debt crisis

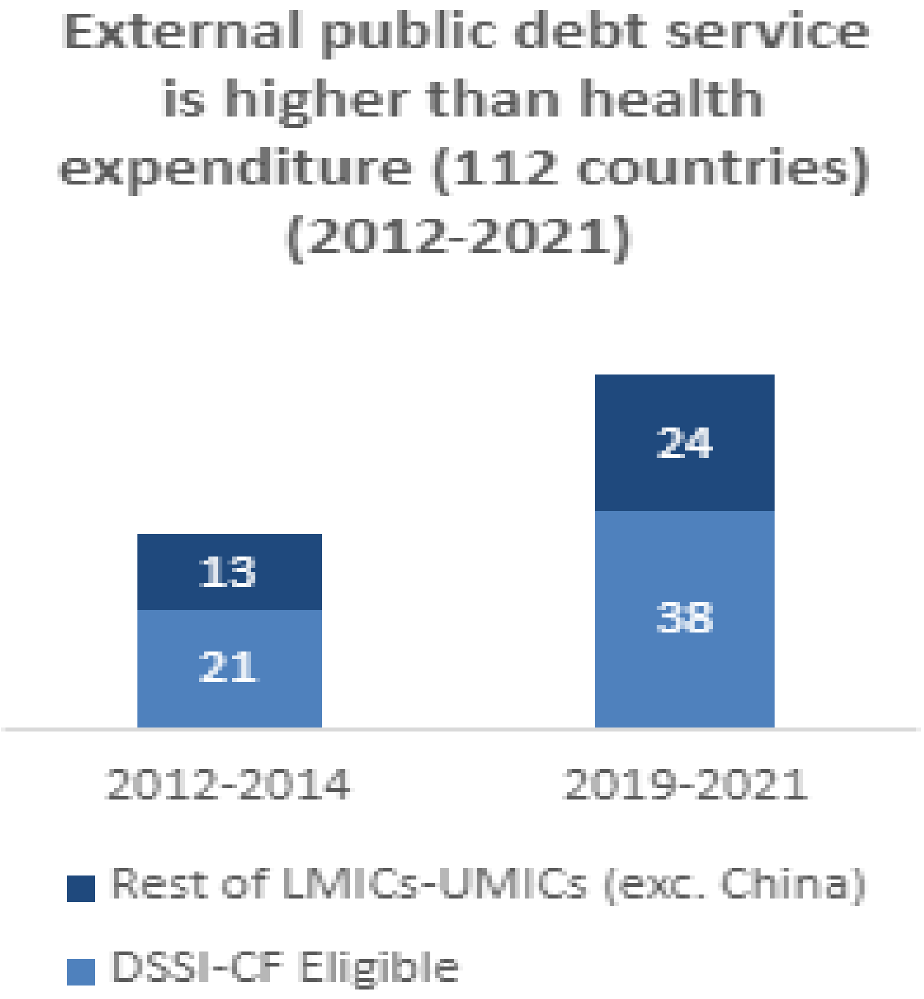
- COVID and other shocks - severe pressure on fiscal space in developing countries, resulting in skyrocketing debt servicing costs.
- 60% of low-income countries and 30% of emerging market economies in or on the edge of debt distress.
- Limited capacity to look beyond short-term financing needs to longer-term climate resilience.
- Access to low-cost finance uneven as the cost of capital differs substantially between regions and countries.

Developing countries considered in or close to debt distress, mid-2022

World Bank income classifications 2022-2023[*]	In default as of 30 June 2022	Undergoing sovereign debt restructuring as of 30 June 2022	External sovereign bond yields close to or above 10 percentage points relative to US 10Y Treasury bills as of 30 June 2022[**]	IMF debt sustainability assessments (in debt distress or at high risk of debt distress) for PRGT-eligible countries as of 31 May 2022[***]
Low-income countries (LICs)	Zambia	Chad, Ethiopia, Mozambique	Uganda, Zambia	Afghanistan, Burundi, Central African Republic, Chad, Republic of Congo, Ethiopia, The Gambia, Guinea-Bissau, Malawi, Mozambique, Sierra Leone, Somalia, South Sudan, Sudan
Low-middle income countries (MICs)	Lebanon, Sri Lanka		Egypt, Pakistan	Cameroon, Cabo Verde, Comoros, Djibouti, Ghana, Haiti, Kenya, Kiribati, Lao P.D.R, Mauritania, Micronesia, Papua New Guinea, Samoa, São Tomé and Príncipe, Tajikistan, Zambia, Zimbabwe
Upper-middle income countries (UMICs)	Suriname		Brazil, Colombia, Turkey	Dominica, Grenada, Maldives, Marshall Islands, St. Vincent and the Grenadines, Tonga, Tuvalu,
	Venezuela (not classified)			

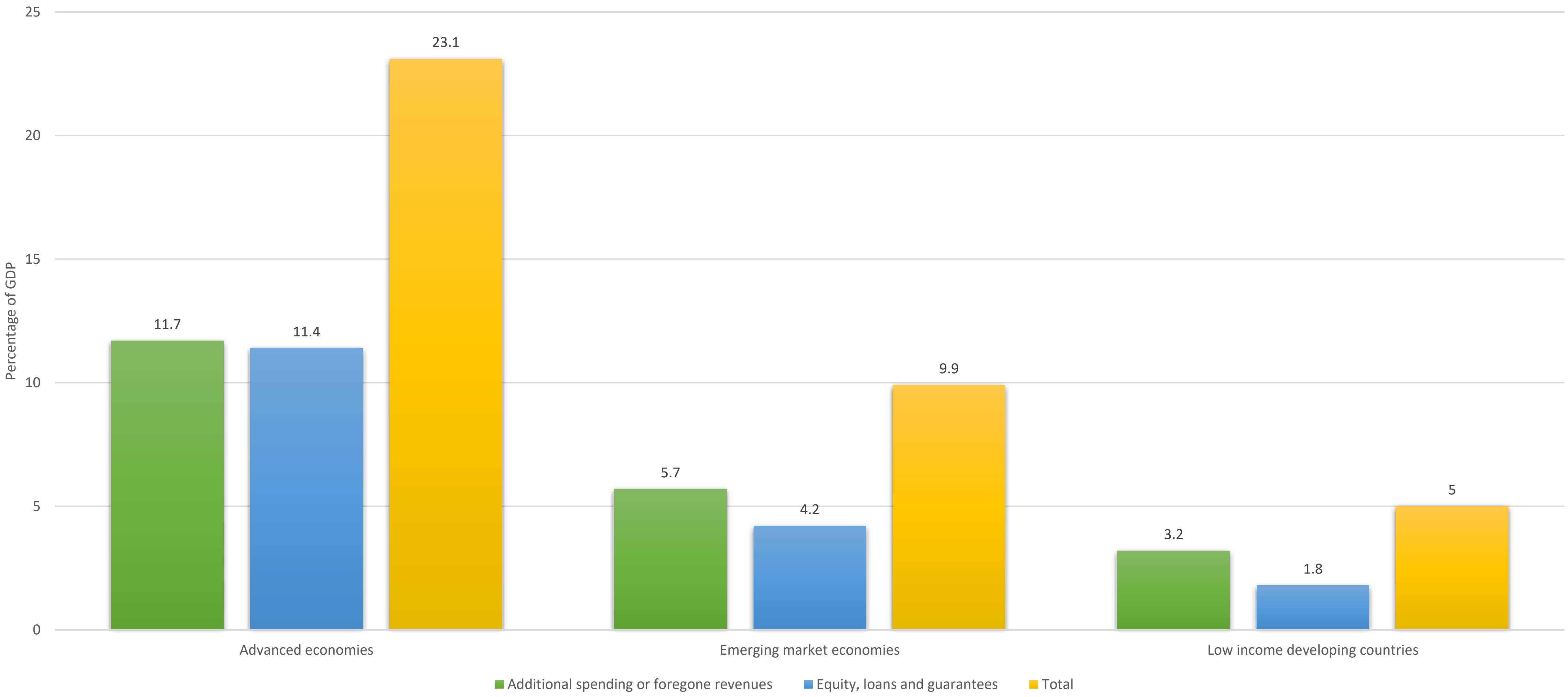
Domestic resources? – a difficult trade-off – 3.3 B spend more on debt than education or health!





Fiscal space asymmetries - magnitude of fiscal stimulus measures announced in response to Covid-19 outbreak,

January 2020 to September 2021 (Per cent of GDP)



What role for the private finance?

“Climate change is an uninsurable event”

Avinash Persaud

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How to enable private-sector engagement in climate adaptation?

- Private financial resources not invested in climate mitigation and adaptation on any significant scale
- A stable climate is a global public good; as such, it cannot be appropriated, and we all benefit from its existence
- A problem with all public goods is an underinvestment in its maintenance or supply, and overconsumption of its benefits
- Thus, private finance cannot benefit from investing in climate activities
- Blended finance is an attempt to remedy that; the problem is that it socializes risks and privatizes profits – de-risking of the private finance is shifting liabilities to the public sector!

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How to enable private-sector engagement in climate adaptation?

- But not working - severely underperformed compared to projected leverageable capacity (UNFCCC).
- The World Bank's 'Scaling Solar' project to leverage private finance for renewable energy only managed 28c of private finance for every 1$ of public, and only with the support of generous guarantees, tax breaks and subsidies.
- We need to be cautious when relying on mobilizing private finance as a primary mode of climate finance.
- Track record of these approaches has yet to meet expectations, whether in the scale of financing or on the quality of development or climate outcomes, delaying much-needed action on other possible options.

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How to enable private-sector engagement in climate adaptation?

- The private sector has a role to play, but doing more of the same is wasting limited public resources.
- The UNSG's report from High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities offers an alternative, more regulation-focused approach to ‘greening finance’.
- It is a better litmus test of what we should be expecting from financial actors to protect against greenwashing and truly align private finance flows with Paris: https://www.un.org/en/climatechange/high-level-expert-group.
- While private finance has a role to play in achieving climate goals, public finance must take the lead, particularly in the case of adaptation - primarily focused on avoiding future costs rather than generating profits (TDR 2021).

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Recommendations

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Global reforms needed

- The **2030 Agenda for Sustainable Development** and the **Paris Accord** are the response to the interrelated challenges of climate change, social exclusion, and economic development.

- Achieving it will require a **new development model that provides prosperity for all, but within the planetary boundaries**.

- Needed: a <u>fundamental socio-economic transformation</u> based on decarbonization of the economy, a greater attention to distributional issues, and a massive investment effort, both public and private, in public goods.

- **short term -** (1) dealing with the cascade of crises (2) advancing structural transformation towards a greener economy, (3) addressing a deteriorating growth outlook by boosting productive investment and expanding redistributive measures.

- In the **mid- to long term**, it requires addressing the underlying structural problems of the current model and establishing a new one.

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Global reforms needed – where to start?

- **Urgently reform our global financial architecture** to align with PA (§2.1c)
- **Start with debt-climate nexus and vulnerabilities:** existing sovereign debt architecture is ill-suited to address a systemic crisis, we need a permanent and comprehensive debt restructuring mechanism.
- Establish a rules-based system of multilateral **policy coordination** and multilateral **liquidity provision**.
- **Special attention to LDCs and other vulnerable countries** - most exposed to the cascade of crises, which reflects systemic inequalities of the global financial architecture.
- Urgent **efforts to rescue SDGs** requires a consolidated global response focused on economic recovery, green and just transitions, safeguards to social protection, and decent job creation.

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Global reforms needed – where to start?

- But largest obstacle to long-term development is the looming climate crisis.
- **Accelerate emissions reduction in advanced economies** - just transition in developing countries will particularly depend on accelerated mitigation efforts by advanced economies
- **Adopt expansionary fiscal and monetary policies**, coordinated across countries - provide a climate-sensitive reflation of the global economy - trigger a positive effect on the growth trajectory of developing countries - will depend on systemically important economies reversing the current trend of monetary tightening and austerity
- **Make green technologies affordable to developing countries** - green technology transfer to developing countries has to be a deliberate process of removing IP barriers and sharing knowledge based on common but differentiated responsibilities

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Global reforms needed – climate finance

- International cooperation is key to **providing sufficient and predictable long-term climate financing to developing countries** for low-carbon, sustainable economy.
- The funding should be **new and additional**, not taking away from development finance
- The funding should be **at the scale needed**
- The funding should be **provided to all developing countries**
- Should be **based on “polluter pays” principle** (developed countries and rich individuals)
- Use different sources such as shipping emissions levy, aviation levy, wealth taxes, excess fossil-fuel taxes, and the like

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Global reforms needed – climate finance

- Tackle the problem of **illicit financial flows**
- Recapitalize the MDBs and ensure they align with a climate-resilient future
- **Meet ODA commitments** and provide additional climate finance, including by establishing the **Loss and Damage Fund** at COP28.
- **Expanding affordable public financing at all levels is a major priority**, but so too is ensuring private finance aligns with public goals through strengthened regulation - partnership with the private sector must be based on fair risk- and reward-sharing!
- **Address persistent governance issues in IFIs**: this includes reforming IMF quotas and voting rights, delinking SDR allocation and access to respond to vulnerability, issuing new SDRs, improving transparency, and aligning BWIs with the PA.

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Thank you!

igor.paunovic@un.org

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